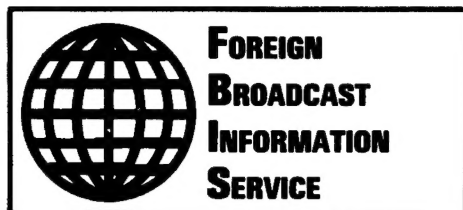


JPRS-EER-92-065  
22 MAY 1992



# ***JPRS Report***

## **East Europe**

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# East Europe

JPRS-EER-92-065

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**Comment on Departure of REPUBLIKA Editor**

92P20279A Tirana ZERI I POPULLIT in Albanian  
24 Apr 92 p 2

[Article by "Observer": "The End of a Pseudo-Dissident"]

[Text] In a short announcement, yesterday's edition of REPUBLIKA reported that Petro Dhimitri has been removed from his position as chief editor of this newspaper, by decision of the steering committee of the Republican Party. According to this announcement, before he was removed from his position, Petro said that he was resigning from the Republican Party because of disagreements with the steering committee. Therefore, this committee accepted his decision without neglecting to point out that he had constantly been called to account "for monopolizing the activity of the newspaper and for personal dictatorship," "for erroneous writings which are not in accord with the policy of the party," without specifying which writings were referred to, which you would not expect to find in such an announcement.

We would like to say something about this. For more than a year, Petro Dhimitri has tried, by means of REPUBLIKA, to present himself as a republican from the very beginning. However, this pose as a dissident has

not had a long life. His truly prolific pen calculated and attacked just about everything for more than a year. Often, without a modicum of the ethics expected of a journalist and a citizen, he shamelessly distorted the truth and became an instrument of political blindness and unparalleled blunders. He will be remembered as a journalist who, while exploiting the organ which he headed, with the utmost meanness, often brought up, as an issue of the greatest importance, his desire to get back the house in which he was born. Addressing our people as "my fellow sufferers," he told them about his frequent travels during the past year to Paris, Strasbourg, Vienna, and Washington, acting like a born dissident. He will always be remembered for the anathemas which he spewed forth after the slightest bit of analysis by all those whom he considered to be his opposition and the damage which he caused to his own party in his contacts with the Democratic Party when he wrote that two out of every four members of the Democratic Party should vote for the Republican Party in the 22 March elections, which made people smile sarcastically.

The end of P. Dhimitri as a key figure of the Republican Party and of its press is the end of all those who, in the long struggle for democracy, do not behave honorably. He should be remembered as a pseudo-dissident by means of whom democracy could not succeed.



### Liberal Social Union on Coalition Options

AU1505112692 Bratislava NARODNA OBRODA  
in Slovak 13 May 92 p 3

[Interview with Ladislav Dvorak, deputy chairman of the Liberal Social Union and chairman of the Czechoslovak Socialist Party, and Green Party Chairman Ales Mucha by Alena Walekova; place and date not given: "The Voter Has the Last Word"]

[Text] Ladislav Dvorak, deputy chairman of the Liberal Social Union [LSU] and chairman of the Czechoslovak Socialist Party [CSS], and Green Party Chairman Ales Mucha today answered NARODNA OBRODA questions.

There are three parties associated in the LSU: The CSS, the Green Party, and the Agricultural Party.

[Walekova] The CSS was among the first parties to suggest a union arrangement for our common state. This idea is gaining more and more supporters. Does the LSU also support it?

[Dvorak] We support a common state with a state-based arrangement, established from below on the civic and regional principle. A union setup based on the principle of three independent entities—Bohemia, Moravia and Silesia, and Slovakia—with their own assembly and government, would be the best arrangement according to this idea.

[Walekova] The CSS has undergone essential changes in the last two years. We heard about a crisis in the leadership and loss of confidence among the members. What is the situation today?

[Dvorak] The party has become stronger inside, even at the cost of having a handful of unsatisfied functionaries and several hundreds of members leave. After the convention in Sec a year ago, new and young political functionaries took over their functions. The organizational structure, too, changed. A great deal of responsibility has been delegated to regional organizations in Bohemia, Moravia and Silesia, and Slovakia. Today, our party has over 20,000 members. We subscribe to the political center. As far as our program principles are concerned, we would like to establish the principles of Masaryk's democracy and humanity, and Masaryk's social ideas. We unequivocally reject socialism as a state system. Ideas of humanity, social justice, tolerance, and mutual help are applicable even today, as we can see in socialist parties in West European countries, particularly in Spain, Italy, and France.

[Walekova] What is the LSU opinion on the participation of the state in a market economy?

[Mucha] In environmental matters we consider state regulation a must—be it energy production, waste management, or the tax system. Under free competition, the environment suffers, as we can see today. When allowing

foreign capital in the country, we should be more concerned with environmental criteria. Many foreign companies use our country as a developing country for their investments that would not be allowed in their countries.

[Dvorak] Our program is based on the principle of economic growth. We are in favor of transformation as fast as possible toward a market economy in which social security would be guaranteed. By using proper economic tools, the state must regulate the progress toward a market economy in the transitional period. This means that it should not intervene in the economy in a direct manner, but it can—and even must—influence the economy in an indirect way, as is usual in developed West European countries.

[Walekova] What is the LSU's role in the current political spectrum, and with whom would you like to establish a coalition after the elections?

[Dvorak] The LSU is registered as a political movement at the Czech and the Slovak Interior Ministries. Apart from the collective members (CSS, Agricultural Party, Green Party) it also has individual members. We are running for the Federal Assembly and the Czech National Council, as well. Our goal is to form a strong group of the center. We are running in the elections independently. After the elections we are willing to cooperate with every party or movement of a democratic character. We have held preliminary discussions, and we are maintaining contacts in Bohemia, as well as in Slovakia. Of course, the voter will have the last word.

[Walekova] What about the Green Party's cooperation with other green parties in Slovakia?

[Mucha] At the moment, we have no contacts, which is a paradox, since we have good contacts with all the West European ecological parties or movements. I must say, however, that interest in the environment is generally waning in Bohemia. People are too busy with their daily obligations to have time to be concerned with polluted air or water. In a few years we will have to repair what we are neglecting today.

[Walekova] The LSU movement consists of three parties. In what do you differ and on what have you reached agreement?

[Dvorak] It goes without saying that in every movement consisting of several parties there are certain differences of opinion on some matters. The situation is similar in our movement. Our principal political objectives are identical, however. We are of the opinion that it is a good basis for a solution to the needs of people if we interconnect the problems of the environment with the problems of the cities, the countryside, and the farmers.

### KDH Council Holds Session; Miklosko Elected

AU1305180892 Bratislava SLOVENSKY DENNIK  
in Slovak 11 May 92 pp 1-2

[Article by Marta Ruzickova: "Into the Elections With a Program of Responsibility for Progressive Measures"]

[Text] Members of the Christian Democratic Movement [KDH] Council met in Bratislava on Friday [8 May] for their last session prior to the upcoming parliamentary elections.

It has become the custom that the start of the meeting is taken up with an assessment of the domestic political situation in Slovakia and the CSFR along with KDH's status on the domestic and international political scene. At the beginning of his address, Chairman Jan Carnogursky referred to the topic that the day before had reverberated extensively in the Slovak parliament. This topic was sovereignty and the attempt associated with it by certain political forces to give themselves a higher profile in this preelection period. Carnogursky stated that the KDH also supports Slovakia and increasing its authority and sovereignty, but it wants to do this in a way that does not endanger either the movement or others and that will be in harmony with development and potential in Central Europe. According to him, achieving Slovakia's independence at the moment would also mean raising the issue of the ethnic minorities living in Slovakia. Regarding current development in Europe, Central Europe, and also, to a certain extent, in the republic, he said that it makes possible wide-ranging prospects for increasing Slovakia's authority and status. These prospects, according to him, are based on the fact that smaller nations and some regions are gaining greater rights and are mapping out new possibilities for themselves; Slovakia is included among them without any international objections.

He also referred to the statement by Vladimir Meciar a few days ago after his meeting with the president in which he said that the federal constitution will cease to be valid after the elections and the adoption of a Slovak constitution. Jan Carnogursky said in response that if this were to happen, it would mean separation and the dissolution of the common republic. He characterized the Slovak Christian Democratic Movement's course of action in declaring Slovak sovereignty in the Slovak National Council [SNR] in recent weeks as hazardous, because this policy lacks any proposals for safeguarding the proposed sovereignty, that is, it lacks both political and economic safeguards.

Despite the fact that the movement does not have much money for the election campaign, especially for conducting a large-scale campaign, the movement is prepared to make up for what is lacking in funds by personal campaigning at the preelection meetings that open the parties and movements' official election campaign on Wednesday [13 May]. Carnogursky said that KDH candidates go into the forthcoming period with the stipulation that Christianity and the protection of Christian

values are, for them, a fundamental, principle, and long-term aim from which they will not be willing to make any compromises or any tactical concessions. They will also protect and defend these values on the future Slovak political scene.

He also mentioned the KDH's international standing. The movement is unequivocally accepted as the only Christian democratic movement in Slovakia and, as far as European Christian democratic bodies are concerned, the KDH is their only and exclusive partner. At the moment, no other political force in Slovakia—or even in the CSFR—has such international status, said Carnogursky.

SNR Chairman Frantisek Miklosko also attended the KDH Council session as a rank-and-file KDH member. He referred to recent days in the Slovak parliament where, in his opinion, KDH deputies acquitted themselves creditably, and future weeks will demonstrate that they passed muster with complete responsibility and seriousness. He emphasized that the issue in recent days did not involve sovereignty in the true sense of the word, but involved seizing power. Regarding the KDH election program, he said that this is a program of responsibility for progressive measures.

In another part of the session KDH Council members decided that Stanislav Vajcik will continue to be entrusted with the post of central secretary and that the council will return to the election of a new secretary at its next session after the elections. Two new KDH Council members were elected in a secret ballot. They are Frantisek Miklosko and Jozef Miklusicak from Central Slovakia.

The upcoming elections and the election campaign were a special point on the agenda. Representatives from the movement's election headquarters briefed those present on all the preparations and replied to the many practical questions that council members from individual regions of Slovakia asked them.

### SDL Called Insensitive to National Issues

92CH0520B Bratislava SLOVENSKY NAROD  
in Slovak 14 Apr 92 p 2

[Commentary by Miroslav Saska: "Slovak Democratic Left: Christian Democratic Movement Is Our Example"]

[Text] Until now we used to hear political dribble only from Jan Carnogursky and his cohorts, but recent events have shown that this style is gaining popularity also among the communists who have a new name—SDL [Slovak Democratic Left]. Of course, it is hard to expect feelings of nationalism from a communist whose mother's milk was socialist internationalism, the cause of enormous harm to the Slovak nation (however, some individuals who harbor such feelings may undoubtedly be found even in the SDL), but it may not be the best and most courageous solution to base a party's policy on procrastination and then at an opportune moment to

latch on whoever is stronger. It is crystal clear that the SDL precisely has chosen that path.

When the inclusion of the draft of the constitutional law on sovereignty on the agenda of the SNR's [Slovak National Council] meeting in March was put to vote for the first time, only some of the SDL's deputies supported (just for the effect) that proposal, while the rest of them opposed it. They explained it by asserting that the draft was not perfect and that "it failed to make clear what to do with sovereignty." However, is that the real reason why such a serious matter has not even been submitted for discussion? After all, everyone can improve the "imperfect" draft and after a debate and adoption of the amended final draft, one can decide whether to vote for it or not.

When the issue of sovereignty reemerged—this time only as a political declaration—the SDL members were willing to at least discuss this issue and if their amendment on the preservation of the current (still communist) constitution is adopted, even to support it. Too late! Meanwhile the governmental coalition had figured it all out and left; in their hearts they must have silently blessed their opposition, the SDL. In the end they were not the only ones to do so. The great state dramatist, Vaclav Havel himself, lauded that party's constructive attitude. In addition, we can see things in a clearer light if we realize that precisely the members of the SDL among the opposition have been recently most frequently invited to take part in the television program "What the Week Has Brought."

However, where is an end to all that? I do not doubt that once Weiss's followers see that the scales are tilting to the side of sovereignty, they will abandon the line of Czechoslovakism and true to their new political strategy, cover themselves with national colors. Nevertheless, one gets goose pimples when one sees the self-assured chairman of the SDL dreaming about the second spot in elections. If we add to that the democratized communists in the HZDS [Movement for Democratic Slovakia] and the SDSS [Social Democratic Party in Slovakia] (as well as in other parties, our own party being no exception), we understand immediately why the SDL is so popular in Bohemia. Indeed, a clear-cut victory of the left (of the Bolsheviks) in itself would provide a reason for our "cousins" on the other side of the Morava River to save Slovakia's endangered democracy even by military force; after all, it would be a supreme internal state action. However, we may not have to fear that should those three parties gain a sufficient number of votes and forge a coalition, they certainly would demonstrate enough political prudence and would not permit any anticonstitutional steps. The HZDS would submit to higher interests even at the cost of separation, and its program would meet the same end as the renowned Chance for Slovakia.

No, I do not want to present here a scenario for a disaster, nor am I a futurologist. Alas, such is the reality, and the events of the past two years prove me right. It suffices to compare the programs of individual parties

(and of the government) with the performance of their members. Some people have switched their orientation during the election period not once but twice! A good look at new preelection programs and ballots also suggests many things. As two years ago, so also now everybody "swears" on sovereignty, equality and Slovakia's interests. Still, it would be interesting to take a look, for instance, at the SDL's ballot and find out whether some of those deputies who favored sovereignty appear in one of the top spots or whether those spots are reserved exclusively for the adherents of Czechoslovakism.

### Chairman of Movement Attacked as Anti-Slovak

92CH0520A Bratislava SLOVENSKY NAROD  
in Slovak 14 Apr 92 p 3

[Commentary by Jozef Morjak: "Is Peter Marianek a Slovak?"]

[Text] I read in the daily NOVY SLOVAK of 23 March 1992 a commentary entitled "The Chief Was Spitting." The author of the commentary speaks about his impressions from a press conference of the anti-Slovak, pro-Prague "Human" movement whose chairman is Peter Marianek. His statements that the nationally oriented Slovaks are fascists who ought to be locked up are generally known and will enter Slovak history as wounds inflicted on the body of the Slovak nation. This profederalist loudmouth will never understand the more than a millennium-old efforts for emancipation of the Slovak nation which wants to have its own state at long last. The Slovaks crave nothing that is not theirs. All they demand is what history has thus far unfairly denied them. Having read the above-mentioned comment, I felt as though I, a long-time colleague of Mrs. Miriam Marianek, Peter Marianek's mother, had been covered with spittle. Peter Marianek was born to a family of non-Slovak parents, the former Mr. Helmut Marianek and his wife Miriam. Mrs. Marianek arrived from Brasov, Romania, in search of a happy life in Slovakia. She preferred to speak Hungarian. Until her retirement she was employed as a member of the opera chorus of the SND [Slovak National Theater]. Mr. Marianek, whose sympathies were pro-German, moved to Slovakia from Bohemia. He played trumpet in the orchestra of the SND. The magnanimous Slovak nation received these artists in its embrace and what is more, its supreme cultural institution, the SND, immediately hired them. Optimum conditions were created in Slovakia for their artistic growth and fulfillment. Every dramatic artist and musician dreams to rise up to the stage that is a world. Not everybody succeeds, but the Marianeks' dream did come true here, in our beautiful Slovakia! Nonetheless, Mr. Helmut Marianek's heart never grew fond of the Slovaks and of Slovakia and therefore, he opted for emigration and followed the voice of his heart to the former West Germany. Even Peter Marianek made his way up to the stage that is a world. He was hired as a member of the SND's special opera chorus—the same Peter Marianek who is now the chairman of the "Human" movement and as such, he pursues the inhuman anti-Slovak policy

coordinated by Prague. In fact, the non-Slovak background of the Marianek family should not be at all surprising, perhaps except for the fact that their son is spitting on Slovak emancipation efforts.

**Slovak Politicians' Press Conference in Vienna**  
*92CH0511A Prague SVOBODNE SLOVO in Czech*  
15 Apr 92 p 4

[Commentary by Jindrich Lion: "For the Last Time on Board the Same Ship"]

[Text] Toward the end of last week, the ship Druzba sailed from Bratislava to the Viennese port on the Danube in order to promote, in accord with its name, friendship between the citizens of the two cities on the banks of the Danube, as well as education in the form of information about the current political life in Slovakia. It carried a precious cargo: leading functionaries of Slovak political parties. Not of all of them; there were no representatives of the Civic Democratic Union-Public Against Violence [ODU-VPN], the Democratic Party, Hungarian Minority, Movement Democracy 92, and Gypsy parties. The first three parties named were allegedly invited but did not send anyone. The others did not come into consideration because only representatives of political parties represented in the parliament were invited. On the other hand, the Slovak Social Democrats [SSDS] were there, although they do not have anybody in the parliament either.

And so facing the reporters sat 12 functionaries of various parties that have one common goal: to achieve Slovak sovereignty after the elections. With various nuances, to be sure, but with the same end in mind. There was talk, for example, about the dirty fighting and mutual accusations, about which the chairman of the Slovak National Party [SNS] expressed an interesting opinion: He said that after analyzing the attacks he has the impression that individual personalities are inviting the attacks themselves in order to gain popularity. He also expressed his conviction that after the breakup of the republic both parts will come to an agreement about dividing the property and will continue friendly cooperation. Mr. Knazko from the Movement For a Democratic Slovakia [HZDS] complained that the Czechs consider everybody who is not for the federation to be against the common state. Only 6 percent of foreign investment is in Slovakia, they said. It is not, as one newspaperman remarked, that foreign capitalists are afraid to invest there because they consider the situation too uncertain, but according to Mr. Klapac from the Slovak Christian Democratic Movement, it is because Prague is screening foreign investments, which means that nothing gets through to Slovakia and therefore Slovakia needs to set up its own international relations. According to Knazko, the common state is unfair to Slovakia and pushes the Slovak Republic into the position of a political province. Prokes also complained that CSFR embassies do not give out information about Slovakia and do not promote Slovak spas, even though

they are the best in Czechoslovakia. The common state, they said, is perceived by all the Czech parties the same way, that is, as a federation, whereas in the Slovak parties there are diametrically opposing differences of opinion. The upcoming elections therefore will be actually a referendum about what kind of further development the citizens want.

When one of the reporters asked which of the parties present are for the common state, it appeared that with the exception of SNS, all of them. Of course, each party has a different idea about that common state. Thus Peter Weiss, the leader of the Party of the Democratic Left [SDL], successor of the CPSZ, does not believe in national altruism, help by one republic to the other is, according to him, nonsense. The state cannot serve both republics, it will always make decisions favoring one at the expense of the other. Separatist tendencies are said to exist even in the Czech Republic, and the Czechs are depending on economic support from Germany. Slovak Social Democrat Zala warned that if the Czechs fail to understand the unstoppable trend in Slovakia (and as far as developments on the Czech side are concerned, he is skeptical), then the pressure in the direction of independence will increase. Of those present, only the representative of the Christian Democratic Movement, Minister Pittner, believes in further discussions with the Czech Republic after the elections, and in case no agreement is reached, he sees referendum as the only solution.

It was interesting to hear the views of the representatives of the Slovak parties. As one Austrian journalist remarked after the press conference, it seems to him that these views stem mostly from the Slovaks' unwarranted inferiority complex vis-a-vis the larger of the two nations. It is as if nobody was giving a thought to the impact on the developments in the independent state that may emerge and about its consequences for the population. Their slogan is: first liberty, and then everything else will solve itself. One Slovak journalist complained to me after the press conference. When I asked him why he did not speak out publicly, he answered: "Because I am afraid."

An atmosphere of fear prevails in Slovakia today. For the nationalists, Calfa is no longer a Slovak because his wife is Czech, Gal is not a Slovak because he is of Jewish extraction, Dubcek is not a Slovak because he is a federalist. And the former silent majority, today probably already a minority, has no chance of expressing itself. It will be no different after the elections—the Slovak parties which would openly declare their will to preserve the common state and refute all those (mostly demagogic) arguments of the separatists are in the minority.

There is the danger that the sobering up will come only when it is too late. And that last week the crew of the Druzba met for the last time on board the same ship.



**Economics Minister Views Reform Progress**

92CH0521D Prague HOSPODARSKE NOVINY  
in Czech 21 Apr 92 p 8

[Interview with Vladimir Dlouhy, federal minister of economics, by Marcela Doleckova; place and date not given: "For the Present, It Is Not Possible To Stimulate Demand"—first paragraph is HOSPODARSKE NOVINY introduction]

[Text] In 1991, industrial production declined by about 20 percent, real incomes dropped by 16 to 18 percent, unemployment grew to virtually 7 percent. We spoke with Vladimir Dlouhy, federal minister of economics, about how the economic reform should continue in this situation.

[Doleckova] What do you say to these results?

[Dlouhy] These are facts. However, on the other side, there is the elimination of central planning, the liberalization of prices and of foreign trade, and the internal convertibility of the koruna [Kcs]. And all of this took place in a situation when the export markets in the east were lost. How important this factor is can be illustrated, for example, using the example of Finland, which is a successful market economy and, nevertheless, experienced negative economic growth as a result of the decline in demand from the former Soviet Union and saw a relatively significant increase in unemployment. I would like to add that the testimonial value of macroeconomic data is debatable anyway: We made the move from standard Marxist statistics to a system of national accounts, customs statistics are being changed, etc. Consequently, the price which we have paid for the first year of reform is not an argument to be used in denying the correctness of the strategy of reform. This is precisely what our critics do not wish to see. They threatened us with the specter of continuing devaluation, a high pace of inflation. And nothing like that occurred.

[Doleckova] Today, however, more and more voices are being heard stating that economic policy should be more oriented toward the demand side, that demand should be revitalized through state incursions.

[Dlouhy] I am afraid of an across-the-board stimulation of the demand side of our economy. Pressures in this direction are the result of a lack of understanding of the situation in which the stimulation of demand can play a good part. In my opinion, such a stimulation can function properly only if the economy has a market character and is efficient, which was the case in Roosevelt's New Deal in the 1930's. Our economy is characterized by persistent inefficiency, high costs, low productivity, and is very demanding in terms of all inputs. That is why there is the danger that any possible resources invested in it would not be utilized efficiently and that the entire operation would primarily lead to a state budget deficit or indebtedness abroad.

[Doleckova] What then do you consider to be the most important path toward revitalization?

[Dlouhy] Adaptation by those who produce products. This will be aided by privatization. Of course, it is necessary to have a clear overview as to when and what kind of effects can be had from privatization and in what kind of environment they will be maximized. That is why we must place primary emphasis on cooking up an entrepreneurial climate, which includes support for small business and medium-size business undertakings, a more liberal tax policy, and a new policy vis-a-vis foreign investments. I am anticipating that, once a capital market comes into being, it will hardly be opened immediately to foreign capital because it is likely that, in addition to those enterprises whose securities will be very highly priced, there will exist a large group of enterprises with extremely low-priced securities. However, because we need foreign capital in addition to the capital market, we shall have to maintain a specific policy addressing foreign investments for a number of years to come.

[Doleckova] Will we not be exchanging the monopoly of domestic manufacturers for a monopoly of foreign manufacturers that way?

[Dlouhy] Demonopolization is another matter having to do with entrepreneurial activities in general. A small businessman and a medium-size businessman, as well as the larger enterprises are constantly running up against monopolies of a specific type and no one has, for the present, submitted a specific strategy indicating how these monopolies can be broken up. The question of state ownership or a share of ownership by the state in some enterprises, for example, in the area of fuels, energy, perhaps even in metallurgy, the railroads, and communications, is connected with this question. Here, there must be a state policy.

[Doleckova] The critics of reform frequently contend that the state should support the development of the infrastructure.

[Dlouhy] There is no doubt that the state should have a flexible infrastructure policy, even from the standpoint of financing, for example, by issuing state bonds. It should also be admitted that this society will pay for some infrastructure services. If, for example, we were to side in favor of a toll system on our long-distance highways, foreign capital would arrive here more quickly. The same is true for the railroads and for communications in general.

[Doleckova] If structural changes are as yet in the future for us, we must obviously figure on a growth in unemployment.

[Dlouhy] We shall not be able to avoid unemployment if conditions for the mobility of manpower do not improve. In our country, one of the most rigid manpower distribution structures continues to exist. But

conditions promoting the mobility of manpower continue to be absent and that is why there is such pressure being exerted on the housing law. The creation of a housing market and corresponding housing legislation are one of the fundamental conditions for the mobility of manpower.

[Doleckova] In your opinion, what role is played by regional policy with regard to unemployment?

[Dlouhy] Regional policy is primarily a policy for creating job opportunities. Nevertheless, I unequivocally reject the policy of salvaging enterprises and saving job opportunities. This is not the way. However, it is the duty of the government to create conditions for the development of new job opportunities in selected regions.

[Doleckova] The social network is connected with unemployment.

[Dlouhy] Naturally, the social policies of the government must be aimed at improving the social network. Nevertheless, I fear that, of those approximately 650,000 unemployed, involuntary unemployment represents approximately only one-third. This means that two-thirds are people who either did not work even under the previous regime and have now registered as being unemployed, or are not actively seeking employment. And we must keep in mind that the wave of unemployment is yet to come and that even that is an imperative to create the most flexible of social networks.

[Doleckova] And your views on agricultural policy, primarily in conjunction with your frequent criticism of the joint agricultural policy which exists in the European Community.

[Dlouhy] Agriculture all over the world is characterized by a specific life-style which, in our country, is adhered to by the heritage of the communist regime. The system of central planning drove agriculture into becoming quite inefficient. This created a certain feeling of self-assurance in Czechoslovak farmers and, on the other hand, gave them the knowledge that they are not capable of competing, but that that is not a concern for them. Our agriculture consumes approximately 2.5 times as much energy inputs per unit of production as is the case in comparable agricultures in West Europe; it is substantially more labor-intensive as well. This has made agriculture a still less efficient component of our economy than was its "average inefficiency." The basis for an agricultural policy of the state must be the transformation of ownership relationships. Another matter is the elimination of subsidies. Agriculture must go through a period in which it must adapt to the specific lowering of subsidies. In my opinion, this is the only way in which agriculture can survive. When I say that we must reduce subsidies, this does not mean that we would do away with them completely. But it is urgently necessary to push subsidies in another direction and to not make the mistake which we did in the first half of last year, when we essentially subsidized production and experienced

surpluses. Subsidies should be aimed at areas where agriculture is undergoing a certain restructuring, where positive changes in cost-effectiveness and competitiveness are to be seen. It is also possible to place subsidies where agricultural production is beginning to fulfill even another function, such as an ecological function or a landscape-creating function.

Farmers are right when they say that they find themselves between two millstones. On the one side, there are the high prices for inputs; on the other side, the high prices pertaining to the realization of their production, but without benefit for the farmer. The scissors between prices paid by farmers and prices paid by small-scale consumers should not have been opened as much, something which is certainly connected with demonopolization and possibly also with administrative steps which were supposed to be accomplished by the republics, but which we were also supposed to see at the federal level.

As far as the role of the Fund for Market Regulation is concerned, farmers must rid themselves of the impression that this fund is some kind of automatic cash register to provide resources for financing exports. As long as no price signals are seen domestically, it is not possible to finance the export of agricultural surpluses. If there is excess supply, then the first reaction of a businessman must be to reduce the price. The Fund of Market Regulation must not, at the same time, function in such a manner as to stimulate or renew the production of surpluses. In essence, this is nothing other than an entrepreneurial climate for farmers. Similarly, we are also protecting the domestic agricultural market for the time being. But farmers must count on the fact that this protection is temporary and that customs duties will be dropping. And as far as the common agricultural policy of the European Community is concerned, as long as you evaluate it from the viewpoint of the GATT, it is my view that, in the long run, West Europe is the loser.

[Doleckova] And other state policies?

[Dlouhy] The energy sector and the fuels sector are branches which will be privatized primarily during the second wave of coupon privatization. And, in my view, will require state incursions. In this regard, we should even be prepared for a policy which benefited those countries which are most similar to ours, such as Mexico or Chile. Those countries, too, had decided on state incursions, involving 10 to 40 of the most difficult enterprises. This state intervention means that such enterprises will either completely or partially be exempt from privatization and that the state will restructure them on its own responsibility, including the possibility for selling them directly to a foreign investor. There is the question as to the extent to which these large enterprises tend to block the economy in general as a result of their insolvency and indebtedness in the past. In my opinion, the economic center should provide answers to all of this.

[Doleckova] How do you visualize the structure of the center?

[Dlouhy] In my opinion, it could stand on three legs. The central bank, as the administrator of wealth; second, the Ministry of Finance as the administrator of the budget; and, third, the Ministry of Economics, with respect to an active state policy and trade. All long-term strategic intentions can be created by the research hinterland of these three principal state units.

[Doleckova] You would not include the Ministry of Labor and Social Welfare in this structure?

[Dlouhy] I believe that at least the foundation of social policy should have a certain degree of federal oversight. If, after the elections, this country will reach the conclusion that it must have a unified domestic market, then it must not be forgotten that manpower is nothing other than goods. If unified conditions are to exist in a unified federal domestic market, then the movement of special goods—in other words, of manpower—must be defined by unified conditions.

[Doleckova] And what about the Ministry of Control?

[Dlouhy] It is hard for me to say; control does not fall within my jurisdiction and it is not only an economic matter. The entirety of state administration must be subject to control.

[Doleckova] But it will be a purely economic question some day.

[Dlouhy] It is true that in the majority of developed economies there exists something akin to a supreme accounting court. Sometimes, this supreme accounting court even stands outside of the state administrative apparatus and is controlled only by parliament because it is the sole body exercising control over all organs within the country, including the state administrative apparatus.

[Doleckova] A sensitive area which has now acquired a somewhat specific image is the armaments industry. Do you believe that the state should subsidize its conversion?

[Dlouhy] In my opinion, not even by investing a single koruna. This is connected with foreign trade and I believe that the noise surrounding the export of weapons is distorted. Of course, it is bad luck if some swindler writes to someone saying that he can deliver 100 tanks which he does not have. Naturally, this creates a distasteful climate. Trade in armaments should be quite precisely defined: Those countries to which the export of weapons is prohibited should be identified and the export of all weapons, including heavy equipment, should then be permitted to all other countries. Whenever I have been in Slovakia visiting armaments plants, I always asked: Do you believe that, if certain territories were permitted for you, that you could assure exports in such a way that production here would be efficient? The answer: Yes, without hesitation. Then, I asked another question: In this situation, do you also desire subsidies to

convert to civilian production? This question also always received an immediate yes answer. But then I respond by saying that this is impossible together. If the plant wishes to continue producing armaments, provided it has permission to export and if the plant itself claims that its production is efficient and profitable, then, should it decide to convert, it can finance this conversion out of the profits of military production. This is a moral, ethical, but also an economic problem. Either armaments production is halted and then the state must specifically help or production will continue, but then the state has no business investing additional resources for conversion. If the enterprises will be dismissing workers because while they have efficient arms production it is at a lower volume, then the state should adopt a regional policy for creating new job opportunities. Conversion, after all, is nothing other than a standard component of the economic reform.

### **GDP Drop Not Caused by Reform, Notes Dyba**

92CH0519B Prague HOSPODARSKE NOVINY  
in Czech 14 Apr 92 p 4

[Interview with Karel Dyba, Czech Republic minister for economic policy and development, by Blanka Ruzickova; place and date not given: "Decline Not Caused by Reform"—first paragraph is HOSPODARSKE NOVINY introduction]

[Text] The CR Minister for Economic Policy and Development, Karel Dyba, belongs to those of our economists who do not consider last year's decline in production to be cause for special concern. We therefore asked him to comment on the results achieved by Czechoslovak industry.

[Dyba] I believe that the issue of the decline is overdramatized. First of all, we must realize that our industry was overexpanded. The hypertrophy of our industry came about because our economy was closed and totally oriented toward CEMA markets, especially the USSR. In addition, people often forget the influence of the economic ideology which for many years did not take the service sector seriously.

[Ruzickova] Do you think then that even a 30-percent drop in production is inevitable?

[Dyba] Same as there was a hidden inflation here and hidden unemployment, so we also had hidden overproduction. I am talking about industrial production for the sake of production. All that has to be exposed in market conditions. Moreover, to a considerable extent the drop in production has nothing to do with the economic reform. It is caused above all by the loss of the Russian market and the impact of a number of external factors. Therefore, even if we had no economic reform, the breakup of the USSR, the reunification of Germany, the war in Iraq, or the situation in Yugoslavia would equally influence the level of demand.

[Ruzickova] The external shocks of course had their impact in a certain internal environment....

[Dyba] All these external factors caused such loss of the export markets and such changes in the exchange ratio to our disadvantage that the drop in industrial production would have happened no matter what. On the contrary, the situation would be even worse without the reform measures currently being implemented. We know how the economy reacted with absolute inflexibility during the past 40 years. Nevertheless, as a result of the so much criticized devaluation policy, the thus far inadequately changed microeconomy adjusted itself in its own way and oriented itself toward Western markets.

We simply must accept part of the decline in industrial production as something that had to happen, and realize that that part of the production which does not measure up competitively will vanish forever. It would be naive, for example, to think that we shall ever again manufacture thousands of locomotives for the Russian market.

I would also like to point out the statistical problem of precisely expressing changes in the economy. They are too quick in our country for the statistical data to include them immediately. When, for example, Spain was undergoing similar restructuring, the only indicator which economists used as a basis was the physically measured consumption of electric power. They realized that in the breakneck and temporary period routine statistical data are unreliable. It simply is an abnormal situation and, with all respect to statistics—and believe me, I have it—we really do not know precisely how the actual volume of production and services is developing. For example, statistics on consumption of electric power in January 1992 show a drop of roughly 16 percent in comparison to January 1991 for large consumers (total including small consumers, only 13 percent).

[Ruzickova] If, of course, production by the main consumers of energy declined by one-third and consumption of energy only by 16 percent, it does not appear that the changes are leading to a better use of energy resources.

[Dyba] That is another point that is being overdramatized. Namely, that production in energy-intensive branches is continuing. I believe that at present we must use those production facilities where we have comparative advantages. If their production is profitable under the conditions of free prices, if it employs people, then it is of course necessary to keep it going.

For we cannot expect that revolutionary changes in the structure of production will take place within a short period of time. It is important that the profits flowing to these branches be used by enterprises for investment in a way that would change their overall productivity, resolve their debt to ecology, etc. It is also time to have a capital market here that will make it possible to transfer capital. I repeat that we cannot deduce from the current changes far-reaching conclusions about the drawbacks of the

structure and a collateral permanent trend toward increasingly energy-intensive and ecologically harmful production.

[Ruzickova] Are you not afraid of budget deficits if the decline in production continues?

[Dyba] Tension is certainly being created between the expenditures and revenues of the budget during this transitional period. However, it is not connected only with the decline in production but also with the loss of tax revenues, etc. But I do not think that we are in an unsolvable situation.

[Ruzickova] Now, a year later, we have arrived at certain results. Do they justify continuation of our present restrictive policy?

[Dyba] I repeat again that the extent of the decline in production is linked to the external situation and also to the fact that part of the industry, regardless of the restrictive policy, is not competitive, which the consistency and totality of the transformation helped to disclose. The restrictive policy was absolutely essential, it had the proper dimension, and it was here to create a certain environment. On the other hand, I would prefer, for example, to see a more rapid change in the policy of the State Bank on the interest rates. Although changes in it were made during the course of the year, it was, especially in the last two quarters, a bit too little, considering the fact that we already had inflation under control at that time. I believe that even representatives of the enterprise sphere are now realizing that it was necessary to pursue the restrictive policy last year.

[Ruzickova] But it is precisely the enterprises that complain about the restrictive policy.

[Dyba] Recently I discussed the questions of the restrictive policy with the new president of the Czech Republic Industry Association, Eng. Stepan Popovic. I consider his views (published recently in HOSPODARSKE NOVINY), which fully endorse the reformist course, realistic. I believe that we can hear in them the experience of a manager of a privatized enterprise. I congratulate the Association for choosing S. Popovic, and I am looking forward to working with him.

[Ruzickova] Do you and the CR [Czech Republic] Industry Association also understand each other on the issues of wage regulation?

[Dyba] So far we have not talked about that. There is obviously need to aim for deregulation even in this sphere. The question is whether we can afford to liberalize now. We have liberalization of prices, we should also have liberalization of wages. If we cannot afford to do it immediately, we must search for a compromise that would make possible certain individualization, but at the same time would be an insurance for the period when we do not yet have privatized enterprises.

[Ruzickova] Do you think you will reach an agreement with the enterprise representatives on the tax burden?



[Dyba] The tax system is changing and the philosophy behind the proposed amendments is clear: an effort to place as little tax burden as possible on the enterprise sphere, and at the same time restrict state paternalism and redistribution. A different question is whether we can achieve it immediately. We cannot get too far ahead of ourselves, because in respect to the expenditure component of the budget we must also think about its revenues.

Moreover, I do not think that the proposed tax system for 1993 places a higher tax burden on enterprises than what it has been so far. If the enterprise sphere has a different opinion, we can talk about it. I believe that with people like Popovic and Kalma (vice president of the CR Industry Association), we can search for common solutions.

[Ruzickova] Do they agree with the 55-plus-10-more-percent tax on profits?

[Dyba] I have not discussed that with Popovic either. But just in passing: Fifty-five percent is not proposed. The final decision depends on the discussions in the Federal Assembly and the National Councils. Besides this tax on profit the proposal contains also an entirely different tax on wages, and I believe the overall tax burden will be in the end lighter than this year.

I repeat, I have always been interested in hearing the views of the enterprise sphere. I firmly believe that with the new leadership of the Industry Association it will be easier to find a common language.

#### **Fund Investment Said Better Than Saving**

92CH0519C Prague HOSPODARSKE NOVINY  
in Czech 2 Apr 92 p 4

[Article by Marcela Doleckova: "How To Skim the Cream"]

[Text] The first of the koruna [Kcs] funds, which are managed by Prvni Investicni A.S. (PIAS) [First Investment Inc.] will be skimming cream in the next few days: The results of their management in 1991 have been relatively favorable.

PIAS is managing two property funds, the Czech [CMF] and the Moravian-Silesian [MSMF], as well as the Investment Development Fund [IRF]. Both property funds are close-end and have stopped issuing shares on 31 December 1991; the Czech fund is capitalized at Kcs350 million and the Moravian-Silesian at Kcs129 million. The Investment Fund is open-end and has formed capital of Kcs760 million by the end of the year.

The areas of investment of all three funds are quite similar at this time. Among their investments are the Pilsner Brewery (shares), hotels (again shares in hotels such as the Esplanade, Pupp, Ambassador, etc.), department stores (Maj, Perla), real estate, art collections. Also worth mentioning is the latest investment (not realized until the first quarter of 1992) in the shares of the Modrany Chocolate Factory (together with the Nestle Co. and other shareholders). Results achieved by the funds are summarized in the table. As it clearly indicates, the shareholders' total return on investment always has two components, the appreciation in the value of the shares, and the dividend. While the return from the property funds does not depend on the length of ownership, the IRF pays 18.9 percent only to those who bought into the fund at the very beginning. Otherwise, the annual dividend is prorated by individual months.

We talked about the management of the funds with the director of the PIAS fund management, Ivan Matejovsky, immediately after their financial statement was issued:

When and how can shareholders cash their dividends? "Dividends from the property funds will be paid out after 30 April on presentation of coupons from the share certificates. In the case of the IRF, a shareholder can either choose to be paid in cash (personally or to his account), or reinvest the money in other IRF shares. In the last 10 days of April each IRF shareholder will receive a financial report and a report on the management of the fund, and after 23 April payment of dividends will begin, which can be cashed even before receipt of the mentioned letter. The dividends from all funds are calculated after taxes."

Can shares be sold? "We are making an effort to be able to negotiate selling and buying of share certificates as soon as possible. Because there is no secondary market yet where they can be traded, we are trying to have them traded on a provisional market or on the Bratislava stock exchange. It is possible that our role as a middleman will be to centralize supply and demand. In the case of the IRF, in the contract the PIAS pledged to buy back, but only 2 years after purchase. That is the only way we can protect ourselves from a shortage of liquid assets, which could force us into a quick, and therefore possibly also unprofitable, selling of investments."

If the shares are not being traded, how can they know how much their value has appreciated? "We used accessible data as a basis, namely from privatization projects, and expert opinion of foreign firms. In the expected trading, the price of shares will be based on the value thus determined."

Return on Funds  
(in percent)

Fund	Dividend Paid	Share Appreciation	Total Return	Share Appreciation	Total Return
		To 31 December 1991	To 31 December 1991	To 15 March 1992	To 15 March 1992
CMF	11.6	12.6	24.2	23.6	35.2
MSMF	12.8	1	1	18.0	30.8
IRF	18.9 <sup>2</sup>	14.6 <sup>2</sup>	31.5 <sup>2</sup>	3	3

<sup>1</sup>Not included because a considerable part of the assets of this fund was gained toward the end of 1991, and the important investments made with them occurred at the beginning of 1992.

<sup>2</sup>The sales fee of 2 percent of the sale price of the shares not deducted.

<sup>3</sup>Date not included because the fund continues to form capital.

**Industry Minister Vrba Pessimistic on Recession**  
92CH0519A Prague HOSPODARSKE NOVINY  
in Czech 14 Apr 92 p 4

[Interview with Jan Vrba, Czech Republic minister of industry, by Blanka Ruzickova; place and date not given: "Call a Spade a Spade"—first paragraph is HOSPODARSKE NOVINY introduction]

[Text] Last year production in Czech industrial enterprises declined by 29 percent in comparison with the year before. The alarming fact that this decline is not having the necessary restorative effect was recently pointed out by the Minister of Industry Jan Vrba, whom we asked for a more detailed explanation.

[Vrba] In view of the fact that our industry was somewhat overexpanded, the decline in production was to be expected. It was to have been, of course, the result of the restructuring process that was put into motion. Together with cutbacks in uncompetitive production, there was to have been an increase in production of the kind of goods that can find a buyer even in difficult market conditions. However, after evaluating last year we can see that the share of the traditional, that is, heavy industry remained unchanged, and on the contrary, the output of the processing industries relatively declined. The composition of exports is also unfavorable: whereas the share of machinery for capital investment amounted to 30 percent, the share of the glass or wood processing industries did not exceed 10 percent.

[Ruzickova] What conclusions do you reach based on last year's results?

[Vrba] The undesirable development I described must be stopped. Future steps must be influenced by the realization that the present policy did not achieve the necessary results in the microeconomic sphere. Even the original scenario of the reform expected some corrections in approach according to the specific situation. It is high time now to evaluate the minuses and the pluses of the restrictive policy, and determine our future course according to what we have learned. I repeat, our analysis shows that the present course is not having the expected restorative effect.

[Ruzickova] You called the situation in the industry a recession several times already. What antirecession measures do you propose?

[Vrba] Last year the government kept antirecession intervention at a minimum. Specifically, we are talking about supporting restructuring investments and stimulating the development of small enterprises. With cutbacks in the industrial production that sector must be able to absorb the part of the work force that became unemployed as a result. It is an absolutely essential condition for mitigating the social problems which undoubtedly await us already this year.

[Ruzickova] Can you give us some specific examples of those social problems?

[Vrba] The decline in the number of workers in industrial enterprises did not match the cutbacks in production last year. Therefore the employment rate was sustained to some degree, which specifically means that the problem was shifted to this year. Another warning sign is the increase of inventories, of which finished goods are the item of the greatest concern. Their volume doubled in our department. There is no doubt now that these goods can no longer be sold. Enterprises, which are currently coping with the threat of bankruptcy, will have to solve these problems very soon. Obviously, by cutting back production and letting workers go. If we add to this the growing number of unprofitable organizations (last December there were 721 out of a total of 1,500), the threat of social tensions is quite real.

[Ruzickova] Do you recommend a departure from the restrictive policy as such?

[Vrba] There is no doubt that we had to start with a restrictive policy. Without it, we would not have been able to cut off the huge overlap of demand over supply. Similarly, we had to introduce internal convertibility and free prices all at once. But now the situation has changed. The problem is no longer with demand, but on the supply side. Supply has not been sufficiently adjusted to the new requirements for quality and quantity. Of course, in order to adapt, most producers need time and financial resources, which they cannot find during continued restrictive policy.

[Ruzickova] Let us go back then to the required antirecession measures....

[Vrba] I already mentioned support of private enterprises as the basic first step. But, of course, together with conditions conducive for developing production we also need a more thorough stimulation of export as well as temporary protection of domestic producers. For the long run, the basis of growth is support of investments, not only foreign but domestic as well. In this respect we need to adopt a policy aimed at stimulating supply, not demand.

The restructuring in some branches will not be possible without government participation. If, for example, we let the smelting industry develop according to market conditions, we shall definitely expose ourselves to the danger of an avalanche of social problems. The situation is similar in other sectors as well, such as transportation and communications. From the conceptual point of view it is also necessary to transform, along well-thought-out lines and under some state supervision, the pharmaceutical industry, to give an example.

[Ruzickova] You were talking about the need for government participation in the restructuring process. Therefore about a need for huge outlays....

[Vrba] For most investments we cannot rely on foreign capital. It does not exactly rush into, for example, metallurgy, and if it does, then only into peripheral enterprises. But in other branches, too, we must carefully weigh the possibility of finding other resources. Let us take the tax policy, for example. If levies of 55 plus 10 percent are approved, the enterprises will again have only minimum resources available for investment. Moreover, such taxes will discourage even potential foreign investors.

Other resources depend on the fiscal policy. As long as we continue to strive for a balanced or even a surplus budget, then real resources for increasing the competitiveness of our goods will continue to be unavailable. I see antirecession policy as an effort to achieve a balance in state finances over a longer time span. We need at least five to seven years for recovery. We must realize that a permanent and uncontrolled drop in production will one way or another cause problems on the revenue side of the budget. Recession must simply be called a recession.

[Ruzickova] What kind of taxes did the budget expect from your department last year?

[Vrba] This question would be better answered by the minister of finance. A planned, or, as the case may be, a budgetary profit is no longer being contemplated according to the enterprises or the departments. But if we realize that enterprises pay roughly a 55-percent tax on profit, we can form some idea about the development of this indicator. The total profit of the enterprises of the department of the Czech Republic [CR] Ministry of Industry kept declining during the course of the year

until there was a loss in December (minus 12.7 billion Czechoslovak korunas [Kcs]). In January 1991 the enterprises in the aggregate showed profits of Kcs12.7 billion before taxes, in January this year already only Kcs2.9 billion.

#### [Box, p 4]

No matter from which angle we look at and judge the recently published data on last year's considerable decline in production, it has a rather basic importance for the future direction of the economic-political measures of the governments. All the more because opinions in this respect differ considerably—even among members of the cabinet. We have therefore asked the CR minister of industry and the minister for economic policy and development of the Czech Republic to interpret the results for us.

#### Misuse of Independent Contractor System Criticized

92CH0521B Prague EKONOM in Czech  
16 Apr 92 pp 56-57

[Article by Jiri Nesnidal: "The Duty To Provide Employment"—first paragraph is EKONOM introduction]

[Text] In the previous issue, we published some views of those people who are critical of the impact felt by the amendment of the employment law, particularly the provisions of Section 1, Paragraph 4 of Law No. 1/1991 SB. [Collection of Laws] as they apply to entrepreneurial activities, particularly in the construction industry.

#### The State Could Not Remain Silent

It remains a fact, however, that the state could not ignore the manifestation which was spreading through our country like an avalanche, when "having an ICO [identification number]" had become a sort of cadre prerequisite. To try for a job in some enterprises, particularly in private enterprises, without registering as an entrepreneur, had become a manifestation of pure lunacy. But that was not enough. There were actually some enterprises from whom employees received notice only to be readmitted to their previous jobs after registering as entrepreneurs according to Law No. 105/1990 SB.—of course, this no longer took place on the basis of a work agreement, but on the basis of an economic agreement. And so, at the end of last year, the number of business entities reached a record level (which many people considered, with satisfaction, to be the birth of a middle class). However, it is likely that no one is counting how many of them were entrepreneurs and how many were "entrepreneurs."

In this connection, the question creeps in unavoidably: What kind of "object of entrepreneurial activity" did the appropriate offices record for all those salesgirls, cooks,

charwomen, forestry workers, secretaries, and representatives of God knows how many other professions, when they were judging their applications for registration?

The reaction of the state to this abuse, which impoverished its treasury by depriving it of a difficult-to-quantify amount of taxes and resulted even in some other negative consequences in the social sphere and from the standpoint of level conditions for economic competition, was not long in coming.

Law No. 578/1991 SB. amended, among others, Law No. 1/1991 SB. on employment, as articulated by Law No. 305/1991 SB., and charged legal and physical entities with the duty of fulfilling the customary tasks resulting from the objects of their activities through their employees which they employ for these purposes in employer/employee relationships according to the Labor Code.

All three ministries of labor and social affairs issued clarifications pertaining to this legal arrangement and we excerpt the following from them.

#### Object of Activities

One of the initial concepts which it is necessary to clarify in the given connection is the object of activities. For purposes of determining the actual status, that status will have to be derived particularly from the following:

- The Commercial Register (Section 28, Paragraph 1, Letter c of the Commercial Code).
- The proof of small business authorization, which is the small business certificate and the concession listing (Section 10, Paragraph 2 of Law No. 455/1991 SB. on small business activities), with the existing registration, which was issued in accordance with Law No. 105/1990 SB., having to be judged with the use of Section 74 of the small business law.
- A special law (for example, the law on advocacy, on commercial lawyers).

As far as budgetary or contributory organizations and organs of state administration and self-administration are concerned, the object of their activities must be derived from the appropriate laws as well as from the establishment listing.

#### Customary Tasks

In the cited amendment, the key term is "customary tasks." The demonstrative listing of these tasks is contained in Section 1, Paragraph 4, Sentence 3. For given purposes, the customary tasks resulting from the objective of activities are understood to be particularly tasks which have the following characteristics:

- They are directly connected with supporting production, the provision of services, or commercial activities involved in business activities.
- They are conducted in facilities destined for these purposes or at locations which are customary for their execution.

- They are conducted on the personal responsibility of the entrepreneur and in his name.

Customary tasks need not be handled by employees in an employee/employer status according to the Labor Code by the following:

- Individuals who are taking care of these tasks themselves or with the assistance of a spouse or children.
- A legal entity through its partners or members.

To judge the question whether, in a specific case, violation of Section 1, Paragraph 3, has occurred, it will be suitable to take into account the provisions of Section 2 of the Commercial Code and the provisions of Section 2 of the small business law. They define business activity (or small business) as a consistent activity engaged in independently, in the entrepreneur's own name and at his own responsibility, and for purposes of achieving profit.

The following can be said regarding the individual characteristics of the term entrepreneurship (small business activities):

- An activity which is organized and directly managed by the person for whom it is done cannot be understood to be an independent activity.
- An activity handled in one's own name cannot be understood as an activity during which a given person does not act in their own name, but in the name of another person.
- An activity engaged in at one's own responsibility cannot be understood to be an activity during the execution of which the appropriate person does not bear any consequences, particularly property-legal consequences, resulting from the conduct of the activity with respect to third persons.

If we summarize the above, we reach the conclusion that customary tasks according to Section 1, Paragraph 3, must be understood to be tasks which represent the actual object of activities of a legal or physical entity and particularly the following:

- Tasks directly connected with supporting production.
- Tasks directly connected with the provision of services.
- Tasks directly connected with similar activities involved in entrepreneurial activities according to special regulations.
- Provided the person in question is engaging in these activities under his own name and at his own responsibility.
- Activities ongoing in facilities designated for such purposes.
- Activities ongoing at locations which are customarily set aside for such activities.

#### Extracommercial Contractual Relationships

The legal modification resulting from Section 1, Paragraph 4, does not deal with commercial contractual

relationships according to the Commercial Code. This must lead to the conclusion that it is not out of the question that partial deliveries can be accomplished as a result of business activities between individuals.

For purposes of the above explanation of the provision, partial deliveries can be understood to be a certain work (whole), the components of which include the value of property delivered along with this work, in addition to the invoiced price of embodied labor, work which was performed in the name of and on the responsibility of the delivering businessman. A partial delivery can also be defined as a work (a whole) of a mental nature, for example, a design, as well as that which is the object of property relationships resulting from mental creative activity, for example, work according to the copyright law.

In contrast, it will not be possible to consider a partial delivery (a binding commercial relationship) to include the mere delivery of embodied labor at an agreed-upon price, without the delivery of the work or the whole involved. Thus, for example, if an individual who acts as a businessman is selling merchandise in a commercial establishment which is owned by another person and is selling the goods at prices set by that person, there is a conflict involving Section 1, Paragraph 4. Similarly, if an individual is doing masonry work for a third person and uses materials which were bought by another person, to whom they belong, this is an illegal relationship. The consequences arising from such a relationship will be to the detriment of the person who incorrectly engages in the activities ascertained by the control authorities.

It will be necessary to judge the question whether a certain activity engaged in on behalf of a legal or physical entity is directly connected with supporting production, the provision of services, or similar activity involved in business on an individual basis, and also whether this activity is to be handled in a working relationship according to the Labor Code. Direct connection can, in this case, be considered to be a situation where, absent this activity, production would not be supported or services would not be rendered, for example, the warehousing of goods in commercial organizations.

On the other hand, for example, the obligation to maintain accounts, which is based on Section 1, Paragraph 1, of Law No. 563/1991 SB. on accounting, and is to be adhered to by legal entities or individuals, will not have such a nature and it will therefore not be possible to consider it as a customary task according to Section 1, Paragraph 4, Sentence 3. (In the given case, Section 5, Paragraph 1, of the law on accounting states that legal entities or individuals may entrust the conduct of their bookkeeping activities to another legal or physical entity.) It will also clearly be necessary to provide similar judgment with respect to a situation where a legal entity arranges a commercial contract for handling certain activities it is charged with in Section 140, Paragraph 1, of the Labor Code, that is to say, to assure enterprise catering on all shifts which is commensurate with the

principles of correct nutrition and to provide suitable beverages directly at the work site (naturally, this does not apply to individuals whose object of activities involves public catering). Similarly, it will not be possible to consider a concessionary trade, according to Section 26 of the small business law, which involves the provision of security for property and individuals, as a customary task in relationship with the object of activity of the entrepreneur.

On the other hand, if, for example, a lawyer or commercial attorney had clerical and secretarial help as free trades, according to Section 25, Paragraph 1, of the small business law, being handled on the basis of small business authorization in commercial binding relationships, this would clearly not be in harmony with the provisions of Section 1, Paragraph 4, of the law on employment.

From the above it is clear that the viewpoint for differentiating between customary tasks based on the object of entrepreneurial activity and a task which is not of that nature depends on the interpretation in each specific case. And this is clearly the source of many future misunderstandings between entrepreneurs and the authorities. The question as to whether, in formulating substantive standards, only the view from one side may have been taken into account—in fact, only the view from the side of the individual who is engaging in business activities and for that purpose “employs an entrepreneur,” remains open. Such a one-sided view, however, does not mean that an artisan, despite being registered as an entrepreneur (small businessman), cannot, under certain conditions, actually engage in free business activities, that he cannot enter into contractual relationships with other entrepreneurs in accordance with his free choice.

### Problems of Commercial Code Application Viewed

92CH0521C Prague EKONOM in Czech  
16 Apr 92 pp 57-58

[Article by Jan Zurek: “The Law and the Expansion of Business Activities—Problems Involving the Application of the Commercial Code in Practice”—first paragraph is EKONOM introduction]

[Text] Currently, there are a number of discussions regarding the quality and even the purpose of a small business law. Its retarding effect is clear and it is perhaps only a question of time before it will be substantially altered or totally rescinded. For the present, however, the discussion on the topic of the new Commercial Code and its application in practice has not developed to excess. The Commercial Code replaced the obsolete Economic Code and everyone was happy over the fact that it will simplify life in the business sphere. Perhaps this did occur in a number of cases, but nevertheless some portions act in a not well-thought-out manner or lack tie-ins to additional legal standards. This article does not set as its goal the minute critical analysis of the



Commercial Code, but wishes merely to point out two partial, but relatively pressing problems.

The first of them involves the conditions for business activities on the part of foreign entities on the territory of the CSFR. In the previous period, foreign individuals were active in our country either in the form of a joint venture, recorded in the Enterprise Register, or in the form of a commercial representation. In the case of commercial representation, their duties from the standpoint of tax assessment and the keeping of accounts were relatively simplified, which did not impose excessive administrative requirements upon such activities. Virtually 1,000 such commercial representations were registered and exist. The Commercial Code rescinded Decree No. 265/1990 SB. [Collection of Laws] of the Federal Ministry of Foreign Trade on establishing commercial representations, stipulating that such representations had to change their forms within six months, in other words, by the end of June 1992. They can transform themselves either into commercial corporations or into an organizational component of a foreign entity, located on the territory of the CSFR. In harmony with world practices, it would probably be better to designate this organizational component as a branch.

The concept of a branch is already incorporated in Law No. 21/1992 SB. on banks (Section 5). Both a commercial corporation and also a branch must register in the Commercial Register (Section 21, Paragraphs 3 and 4, of the Commercial Code). However, for a branch, this recordation constitutes the same duties that are applicable to commercial corporations—for example, the keeping of double-entry bookkeeping. A number of foreign representative offices will probably not resist transforming themselves into branches; what they are more upset about is that there are no clear tax consequences as a result of taking this step, neither are their any clear accounting consequences or foreign exchange consequences, etc. Unfortunately, it is not known how the existing commercial representations, which are purely representational in character, are to conduct themselves. For the time being, the authorities have maintained absolute silence with regard to this problem which vexes many a foreign businessman or possibly his lawyers.

The second problem is represented by the rules for the creation of the reserve fund. The Commercial Code, in Section 217, stipulates that a stock corporation shall, at the time of its establishment, create reserve funds amounting to a minimum of 10 percent of its basic worth. In Sections 164 through 168, which deal with the issuance of securities, as well as in other parts of the Commercial Code, there is, however, no longer any mention of the manner in which the reserve fund is to be pledged.

The size and method of creating the reserve fund must be mentioned in the statutes. According to Section 764, Paragraph 2, however, the statutes of commercial corporations must be adapted, within one year, to the rules of the Commercial Code. The attainment of the minimum

size of the reserve fund at the level of 10 percent of the basic worth will definitely constitute a serious problem for the majority of the existing stock corporations, primarily those with state participation. And within the framework of privatization, primarily within coupon privatization, thousands of new stock corporations are to come into being. The majority of the stock corporations, however, had reserve funds in the beginning amounting to 1 to 2 percent of their basic worth. This means that these corporations must this year without fail achieve relatively high profits, irrespective of how bad the recession might be. For example, a corporation with a basic worth of 500 million korunas [Kcs] must create a minimum of Kcs100 million of gross profits in 1992 in order to fulfill its reserve fund obligation at a 55-percent tax rate. And it can virtually not count on making any payments to the fund of cultural and social requirements and to the rewards fund.

According to Section 68, Paragraph 6, Letter d, if a commercial corporation violates its duty to create a reserve fund, it can be disestablished by court order. A proposal toward this end can be submitted by any person who can prove that they have a legal interest. I believe that these provisions of the Commercial Code are overly ambitious and do not reflect the realistic financial resources at the disposal of Czechoslovak enterprises, particularly the large state stock corporations. The above problems also apply, to a similar extent, to corporations with limited liability.

And, thus far, there has been no mention of the provisions of the Commercial Code which are the most controversial. This is Section 67, Paragraph 2, which claims that the reserve fund must be created on the basis of monetary resources deposited in an account at the bank, or by secured property values which are readily convertible to cash. I do not know where the authors of the Commercial Code got their inspiration, but this absurd provision can, if Section 68, Paragraph 6, Letter d, is strictly applied, lead to the liquidation of the majority of corporations in the CSFR. From the macroeconomic viewpoint, this would mean the deadening of the mass of monetary resources which are owned by enterprises in bank accounts because such a volume of tradable securities, which are rapidly convertible into cash, does not even exist at present. However, I cannot imagine how this condition can be fulfilled by investment corporations which are concentrating the securities obtained on the basis of coupon privatization which will have enterprise securities in their portfolios, the rapid conversion of which to cash can be the source of serious doubts. Even the symbolic pressure aimed at fulfilling the legislative conditions could lead to a serious violation of the fragile stability of the nascent capital market.

Both of the above-mentioned controversial questions are more partial in character. However, I believe that together with the other problems of application involving the Commercial Code they should be solved in the shortest possible time, either by a logically binding interpretation or directly by an amendment of the law.

### Implementation of 'Low-Input' Agriculture Method

92CH0519D Prague ZEMEDELSKE NOVINY  
in Czech 21 Apr 92 p 5

[Article by Jan Baier, of the Prague Research Institute of Plant Production: "Shall We Use 'Low-Input' Method Here?"]

[Text] The system of husbandry which is called "low-input" abroad has prompted the team working on diagnostics of plant nutrition at the Prague Research Institute of Plant Production to study this method under the conditions of our plant production. The results obtained thus far have been mostly positive.

During a visit to the agricultural area in the vicinity of Hanover (FRG), we became convinced that it is mainly the economic situation of the agricultural enterprises that forces many of them to use the low-input method. But it must be first pointed out that this method of organizing plant production does not mean a transition from intensive to extensive production, but means maintaining intensive production while reducing inputs. It appears that it can be done, namely through a better utilization of the biological potential of the plants, the agroecological potential of the environment, material inputs, and modern agricultural equipment.

#### Using Lesser Amounts of Nutrients

In the area of fertilization, the low-input method is implemented by growing varieties which need lesser amounts of nutrients, by a better use of their supply in the soil, by reducing their loss from storage disease and leaching from the soil, and by the technology of fertilizing (quality of machinery and fertilizers).

As an example, we can cite the results from the 226-hectare farm of Ulrich Graf Hardenberg in Peine. In view of the fact that more than 70 percent of the soil on his land is well provided with accessible phosphorus and the rest is abundantly provided, in the case of potassium as much as 90 percent is well provided and the rest abundantly provided (his soils show favorable soil reaction and are well fertilized organically), he was able at the recommendation of his expert advisor to reduce the amount of phosphorus fertilizer to 50 kg P205 per 1 hectare and the amount of potassium fertilizer to 60 kg K20 per 1 hectare of agricultural land.

On the other hand, the soil needs adequate amounts of magnesium fertilizer, because it does not contain enough of this nutrient. The recommended amounts according to the requirements of the plants are between 80 to 180 kg MgO per 1 hectare.

The yields are high. In 1991 the harvest in the average of the acreage sown was 56.4 tonnes of sugar beets yielding 10.1 tonnes of sugar, 3.6 tonnes of winter rapeseed, and over 8 tonnes of cereals (winter wheat, winter barley). A proper balance of nitrogen for these high yields required

relatively high amounts of nitrogen fertilizer, which in 1991 reached almost 200 kg of nitrogen per 1 hectare on the average.

#### Reducing Costs

An important benefit of implementing the low-input method is the reduction of costs for the protection of plants. Care is taken to treat the growing areas only according to the degree of infestation, or expected infestation. The materials used are those that are highly effective in small volumes per hectare. Emphasis is also given to selecting machinery whose technology and way of operating minimize the need for agrochemicals. That includes a precise lining up of individual sprays without overlaps or misses.

Appropriate spreading machinery is also very important for saving fertilizers. Centrifugal disc spreaders of the Amazone company are highly valued by German farmers. Less favored are pneumatic spreaders, mostly because of their more complicated mechanisms consisting of application arms, and the possibility of their being damaged while working close to obstructions.

Evenness of spreading by the disc centrifuges of spreaders also depends greatly on the quality of the fertilizers. For example, according to tests of our fertilizers as to evenness of spreading, lime-ammonium nitrogen produced by the new equipment in Lovosice was very highly rated. The coefficient of variability was very low. On a working area 18 meters wide it was only 4.95 percent. If the spreading width was reduced to 12 meters, the coefficient of variability dropped to 3.74 percent. The lime-ammonium nitrogen produced by the old equipment had substantially worse quality parameters (20.33 percent).

Of increasing importance from the economic and ecological point of view in reducing fertilizer inputs is the use of liquid fertilizers, particularly for foliar feeding, that is, using diluted solutions of special fertilizers, such as Wuxal, which are very often applied together with preparations for plant protection. Solution of urea is often used for additional fertilization with nitrogen during vegetation. This fertilizer is of interest also from the economic point of view. In FRG the cost of 1 kg of nitrogen in urea is about Deutsche mark [DM] 0.80, whereas in lime-ammonium nitrogen its cost is DM 1.20.

#### Road to Prosperity

Also discussed in connection with the introduction of the low-input system is the question of minimizing the cultivating of soil and using the nonploughing method. As far as saving fuels is concerned, these methods were found to have merit. However, they mostly require a larger application of chemical weed killers and nitrogen fertilizers.

Recommended, however, are the combined operations for cultivating soil, in which the leading position on the German market is held by the Amazone company with

its combines for presowing soil preparation and sowing (vibrating or rotating gates, roller, and seed drill with irrigation mechanism). The advantages include not only the saving of fuel, but also of passes across the field and the use of less seed. All that is very important for the German farmer (who does not rest on a "bed of roses" either), because he sees the low-input system as a way of maintaining the intensity and quality of output and making his agricultural enterprise more prosperous. It takes a lot to help the German farmer to hold his own in the competitive struggle within the framework of the EC, and therefore he also thinks about the optimum size of farmed acreage as well as of individual fields.

The current and, according to the opinion of experts, also the future trend is toward increasing the size of farms, either by additional buying or leasing of land. In creating tracts of land for proper sowing operations (biological method of plant production is not underestimated) the size of the field is determined by the operating method of the machinery used. Thus on the above mentioned farm, for example, the best area size is 16 hectares. It takes two days to plough it (twice 8 hours), and one day to sow it. A smaller area, for example half that size, consisting of two 8-hectare tracts could not be sown in two eight-hour days, because of the time lost in crossing over. Another trip the next day increases the cost and time of the sowing.

Experiences in other countries and the initial results of our research with the low-input method show that we must make room for this method as well as prepare appropriate instructions for its use here.

### **Slovak Government To Halt Nickel Production**

AU1505105992 Bratislava PRAVDA in Slovak  
13 May 92 p 2

[Article by Frantisek Melis: "Sered Will Be Without Nickel Before End of Year"]

[Excerpts] The Slovak Republic government is finishing its term in office. Yesterday's 50-item agenda corroborates this fact.

In opening the session Interior Minister Ladislav Pittner observed that the number of violent crimes has stabilized but economic crimes are on the rise. Slovak Republic Finance Minister Jozef Dance reported on the revenues and expenditures of the state budget. On 7 May, the deficit was 1.694 billion korunas. [passage omitted]

The government decided to stop production of nickel from Albanian ore; it is to be halted in the second half of 1992 because of its economic inefficiency and ecological demands. At the same time it approved the release of 10.2 million korunas of this year's budget to alleviate the consequences of the halt in nickel production. This act will cost 836 jobs. The Slovak Republic government is

contemplating solving the problem by organizing a substitute production in Sered. It acknowledged the information from Slovak Republic Ministry of the Economy regarding the situation resulting from the liquidation of the A-1 bloc at the Jaslovske Bohunice nuclear power plant.

An important item on the agenda of yesterday's session was the draft of structural policy of the Slovak Republic government. The content of the policy is given by the tactical and strategic goals. The government will create conditions favorable for development of the market, and will enter the transformation process to further enhance the basis for Slovak economic prosperity. The structural policy of the government will emphasize two main approaches: There will be specific forms of state financial participation in desirable spheres of development [passage omitted], and subsidies for promising developments.

### **Privatization Ministry Opened Scope for Corruption**

AU1405130892 Prague LIDOVE NOVINY in Czech  
12 May 92 p 6

[Interview with Federal Finance Minister Vaclav Klaus by Petr Husak; place and date not given: "Privatization—Dreams and Reality"]

[Excerpts] [passage omitted]

[Husak] Speaking recently to LIDOVE NOVINY, [Czech Deputy Privatization Minister] Jaroslav Muron [who is currently the subject of an inquiry because of his failure to report an attempt at bribing him] declared that he does not deem it necessary to quit his post, although this is the normal practice in advanced democracies (until the investigation of the case is wound up)....

[Klaus] I really know Mr. Muron's case only from the press and do not dare assess it. A clear answer must be given by the courts and the prosecutor's office. It is beyond any doubt that left-wing political parties are ready to use any scandal for their own benefit. If they did not use a scandal involving privatization, they would provoke another one. Obviously, the fewest number of mistakes in the privatization process would occur if no privatization took place. Even though this is a cheap argument, it must be repeated over and over again. It is only logical, and there is nothing strange about it, when there are loopholes and hitches involved in such a mass-scale transfer of ownership rights. We are not chemists and physicists and cannot perform laboratory experiments. We are trying to influence immensely complex social processes, in which millions of people are taking part. It is true that, unfortunately, it occasionally happens that some "human trait" rises more to the surface and some sinks more to the bottom. But there is nothing strange about it.

[Husak] Wherein lies the main problem, in your opinion?



[Klaus] For me, as someone who has pondered the concept of privatization in our country very thoroughly and who has, I hope, also somewhat imprinted his mark on it, the problem lies elsewhere. We knew that privatization by the standard methods carries with it all kinds of problems. This was one of the reasons that we emphasized the coupon method. This method has a million advantages. I know that you know them: speed, relative justice, etc. But it has yet another advantage. It reduces to a minimum the chances of alternative privatization projects, regardless of whether these projects are a bit better or a bit worse. It is exceedingly difficult to make an ideal decision when nine indicators speak in favor of one project and 11 indicators in favor of another project. What weight will you give to individual indicators? We wanted to forestall such decisions. I must admit—without wanting to provoke a conflict with my colleague and friend of long standing, [Czech Privatization Minister] Tomas Jezek—that in submitting the draft of the privatization law we did not even once use the words “direct sale.” This is a term that I have not used to this day. [passage omitted] This so-called direct sale as one of the possible privatization methods is not our own idea. I would not swear by it but I believe that it was suggested to us by the Czech Ministry of Privatization. I also believe that it is not all that surprising that, as a result of the use of this method, in which subjective decisions by bureaucrats play the greatest role, the suspicion of corruption arose. I recently read in *LIDOVE NOVINY* an article by Karel Kriz, in which he mentioned that one of the results of the use of direct sales and so-called rival privatization projects was the entry by Baranekites [followers of Rudolf Baranek, chairman of the Czechoslovak Party of Entrepreneurs, Tradesmen, and Farmers] into the building of the Czech Privatization Ministry, who were then for months hanging around the ministry's passageways (I am quoting *LIDOVE NOVINY*, I have never been there and did not observe the Baranekites). That could explain a great deal. [passage omitted]

Once the game of direct sales and alternative and rival privatization projects was permitted, people like Muron faced an insoluble task.

[Husak] Do you think that the start of the undergrowth from which germinate corruption and the delay and complication of the entire privatization process date back to the moment several months ago when, in the interest of the selection of alternative projects, decision-making powers were transferred to the Ministry of Privatization?

[Klaus] I do not say that as criticism, I am saying that as an analysis. We do not live in a vacuum, in a realm in which we move with the speed of light. Once pressure is exerted by one economic or political group, at some other time by another group. As a result of those pressures, a law is adopted in one form or another. I do not criticize this aspect, I only dare insist in a purist way that our original idea was privatization from below, not from above, that the role of state bureaucrats was to be minimal. Our initial idea was that a bureaucrat should

have the right of veto in well-founded cases, in which the poor quality of the project was evident, rather than having the great decisionmaking power to correct projects.

### **Business Association Critical of Business Laws**

*92CH0519E Prague HOSPODARSKE NOVINY  
in Czech 8 Apr 92 pp 1-2*

[Article by ru: “Laws Should Not Contradict Each Other”]

[Text] At yesterday's round table in Prague, the vice chairman of the Association of Czechoslovak Businessmen [SCP], Eng. Pavel Dvorak, called the current legal framework for private business totally unsatisfactory.

As proof he cited the unsatisfactory small business code, which, in his view, should not have been passed ahead of basic economic laws, but, on the contrary, should have been based on them. The situation got to the point where regulations now in force contradict each other. It is not possible, for instance, to register for doing business in transportation and not break either the law on small business or the pertinent rules governing this activity.

The Association is pushing for the recognition of retraining, a precise determination of the term “place of business,” and a paragraph on crafts and restaurant work to be included in the new law—an amendment of the old one is not possible according to the chairman of the Czech Republic SCP, Rudolf Beranek.

In connection with the small business law, representatives of the Association also criticized the current practice of issuing licences for the so-called limited period. They also complained about the bureaucratic approach in granting new licences, and propose that the validity of the current authorizations be extended to 30 June 1993.

In contrast to the new law on small business, which will have to wait for approval until the next election term, the Czech Republic [CR] SCP is asking that the law on the Czech-Moravian Chamber of Commerce [CMHK] be enacted this month, because it considers it the basis of all legal norms for entrepreneurs. It also has reservations, of course, about the proposal which will be discussed in the Czech National Council in the coming days.

The Association is promoting mandatory membership in the chambers of commerce, where a businessman can become a member in a professional association or in the general chamber of commerce in his district. These two components should have equal standing on the board of the Czech-Moravian Chamber of Commerce. The proposed schema supports the legal entity status of regions and districts and does not derive their establishment from a federal agency.

There should nevertheless exist a federal body composed of representatives of the republican chambers in addition to the CMHK and the Slovak Chamber of Commerce (the law on it has already gone into force in the Slovak Republic). Moreover, the Association believes that private businessmen should predominate particularly in the leadership of these chambers.

There are up to 450 guilds and professional associations in the Czech Republic today. Many of them are striving for a measure of jurisdiction over the verification of the quality of services. The gas workers and electricians, for example, want to perform certifications of domestic as well as foreign instruments and equipment within the network of their own or contracted laboratories, and put their own certification stamp on them. Representatives of professional associations also think that the draft law must deal with apprenticeship and trade schools, while they want to assume responsibility for practical training.

Vice chairman Dvorak commented on the draft of three federal tax laws, saying that he does not agree with presenting these laws separately. "We wanted to judge the entire group of laws all at once, because every businessman must know precisely and ahead of time what to expect. For that he must know the tax assessments of the federation, republics, and localities all at the same time."

SCP further criticized the original federal proposal for income tax at 50 to 55 percent plus 10 percent to localities. Under consideration now is 45 percent plus 5 percent. P. Dvorak thinks that it is possible to find a tax rate suitable to all, and still guarantee revenues for the budget. He considers between 40 to 45 percent to be optimal. For the value-added tax [VAT], CR SCP proposes two rates, namely 5 percent for daily necessities and 20 percent for other goods. In evaluating the plans for the first wave of large privatization, Chairman Beranek judged positively in particular the fact that just in the Czech Republic as many as 1,200 establishments were chosen for privatization by classic methods. These will, in his opinion, become the basis for the real development of small and medium business sector. The time for direct sales will probably begin on 11 April. These will be successful only if long-range credit is available, because in many instances we are talking about amounts of hundreds of millions.

### **Social Policy, New Tax System Relation Examined**

92CH0521A Prague *EKONOM* in Czech  
16 Apr 92 pp 26-27

[Interview with Eng. Jan Klak, CSFR deputy minister of finance, by Anna Cervenkova; place and date not given: "Shall We Have Enough Money To Pay Taxes?"—first paragraph is *EKONOM* introduction]

[Text] One of the most important steps in the scenario of the economic reform is the adoption of a new system of taxation. As the deadline for its introduction

approaches, fears among citizens are multiplying regarding whether the tax burden will be higher than it has been thus far, whether it will not represent an entirely unbearable burden. We put the most frequent questions of readers to deputy minister of finance for the CSFR, Eng. Jan Klak.

[Cervenkova] What is the principal reason for adopting a new taxation system?

[Klak] There are several reasons. The need to adapt to the taxation system in use in the countries of the EC is frequently listed—but it is not the principal reason. The main thing is to introduce such a taxation system which would be suitable for a nascent market economy, a system which would be adequately transparent, relatively easy to control, and would make tax evasion impossible.

[Cervenkova] The readers of *EKONOM* had the opportunity to familiarize themselves with the proposal for the entire system, as compared with the existing arrangement, in the theoretical article written by Engineer Svatkova in issue No. 9. Currently, when parliament is getting ready to negotiate the language of the taxation laws, additional details have already come to light. Has the impact of the entire system been quantified? Will it mean a greater or lesser overall tax burden for citizens?

[Klak] The new tax system is part of the economic strategy which we could call "the state's business involving regulation of the economy." Connected with this business is an effort to restrict the share that taxes play, in the long run, in the GDP—the so-called tax quota—to a level which is customary in West European countries. At the end of the 1980's, the tax quota in our country (excluding contributions for insurance purposes) was almost double that of some countries of the EC. During the course of 1990 and 1991, the tax burden was somewhat lowered, both that of direct taxes (taxes on profit) and also indirect taxes (sales tax). A further decline in the tax quota should occur primarily with respect to business entities, following adoption of the proposal for a new taxation system. As far as income taxes are concerned, the proposal envisions a starting rate for taxing business profits at 45 percent (thus far, the starting rate was 55 percent) and contributions by employers into insurance funds should not exceed the limit of 34 percent (hitherto, for the most part, they were 50 percent).

[Cervenkova] The trade unions are afraid that the introduction of the proposed rates for the value-added tax [VAT] (5 percent for essential foodstuffs and services and 23 percent for everything else) will result in increasing prices by approximately 6 to 8 percent, something which will particularly impact on low-income groups of citizens.

[Klak] Yes, to a certain extent one must figure on this impact. However, any possible price level increases should not be brought about by the proposed rates for the value-added tax, but by the expansion of the tax on

services and outputs, which have hitherto not been burdened by sales taxes. In addition to chemical cleaners, laundries, or the removal of waste materials, the VAT will also be applied to transportation outputs and commerce and this has to, understandably, result in an increase in the overall price level even at the minimum rate of 5 percent.

The tax rates of 5 percent and 23 percent correspond to today's sales tax rate of 4.8 percent and 18.7 percent, respectively. From this standpoint, in addition to causing a certain increase in the price of basic living essentials, caused by a 5-percent VAT, there should be an express decline in the price of all products which are today burdened by sales tax of 29 percent (textiles, clothing, drugstore items) or 20 percent (engineering products). To compensate for the consequences of introducing the proposed VAT rates as they affect socially weak groupings of citizens in whose consumption structures foodstuffs predominate, measures will be realized

in accordance with already adopted laws on the minimum living standard and on increasing pensions. In preparing the General Agreement for 1993, the Government of the CSFR will also take into account the modification of minimum wages. So that low-income groups should not be damaged by the introduction of the VAT.

[Cervenkova] Let us return to direct taxes. Most of our public will be interested in the individual income tax. What is the fundamental difference regarding the existing arrangement?

[Klak] The proposed law contains an attachment which lists an orientational comparison between the existing tax on wages and the proposed individual income tax (including insurance premiums payable to social funds and health care funds). It is an important fact to note that the total annual income for an individual is subject to taxation, which makes possible the introduction of a uniform progressive tax rate and a uniform system for deductible amounts—irrespective of whether the income is based on business activities, on an employee status, or on literary and artistic activities.

#### Tax Table for Individual Income Tax

##### Basic Taxable Income Reduced by Nontaxable Portion

More Than Kcs [korunas]	But Less Than Kcs	Tax (in Kcs)
—	60,000	15%
60,000	120,000	Kcs9,000 plus 20% of excess of basic taxable income over Kcs60,000
120,000	180,000	Kcs21,000 plus 25% of excess of basic taxable income over Kcs120,000
180,000	540,000	Kcs36,000 plus 32% of excess of basic taxable income over Kcs180,000
540,000	1,080,000	Kcs151,000 plus 40% of excess of basic taxable income over Kcs540,000
1,080,000	and more	Kcs367,200 plus 47% of excess of basic taxable income over Kcs1,080,000

[Cervenkova] Let us attempt to show the computation using the example of a family with two children. The husband earns

Kcs4,500 per month gross, the wife earns Kcs3,500 per month, and both work less than 30 km away from their residence.

	Husband	Wife
Total gross income	54,000	42,000
—Nontaxable minimum	- 20,400	- 20,400
—Deduction for two children	- 18,000	0
—Deduction for commuting	- 2,400	- 2,400
—Obligatory paid insurance premiums (14%)	- 7,560	- 5,880
Taxable income	5,640	13,320
15% tax	846	1,998
Tax plus paid insurance premiums	8,406	7,878
Existing wage taxes	8,880	9,720
Difference	484	1,842

In other words, our "model" family will save more than Kcs2,300 per year under the new taxation system. With three

children, the deductible amounts would be even higher than gross wages. Is not a negative tax anticipated in such cases?

[Klak] We did not adopt the principle of a negative tax.

[Cervenkova] And could the wife in such a case claim one of the children for herself?

[Klak] Unfortunately, that would not work.

[Cervenkova] How would it be if the man paid child support for a child from a first marriage?

[Klak] In such a case, the deduction would be computed only for those children whom he has in his direct care. In contrast to the existing status, where both of the divorced parties enjoyed tax advantages, the new rules will permit a deduction only once. If one of the couple is not working and lives together with a taxpayer in a common household as a person being supported, the taxable income for that taxpayer is reduced by an additional Kcs12,000 annually.

[Cervenkova] Does this hold true even in a case where the wife is on maternity leave and is collecting a parental bonus?

[Klak] According to the proposed law on the income tax, the limit for asserting the deduction of Kcs12,000 is the actual income earned by the wife at a level of Kcs20,400. Thus, the health care payments during maternity leave clearly exceed this limit and the deduction cannot be asserted for the period of maternity leave. The parental contribution, which has been newly set at Kcs1,200 per month, will, by comparison, not fulfill the annual limit requirement and for the period that this contribution is paid the husband could qualify for the deduction.

[Cervenkova] Will increased taxation of working retirees be preserved?

[Klak] The proposed law assumes that a working recipient of an old-age pension will be subject to the same rate of taxation as other citizens, but their tax-exempt minimum will be reduced by the amount of old-age pension received. In view of the fact that the tax-exempt minimum represents Kcs1,700 monthly and because the minimum pension as of 1 June 1992 is Kcs1,760, this means that, in the case of pensioners, the deductible minimum is virtually out of the question. Nevertheless, even at that, their tax burden will decline in comparison with this year. Let us take the example of a married childless husband who earns Kcs50,000 per year as a part-time employee. As long as he does not draw a pension, he will pay Kcs11,357 in taxes this year; as a pensioner, he would pay 100 percent more, that is to say, Kcs22,614. After adoption of the new taxation system, his annual tax, including insurance premiums, would amount to Kcs10,030 (as long as he was not drawing a pension), that is to say, Kcs1,327 less; as far as a working pensioner is concerned, his total annual tax, including insurance premiums, would amount to Kcs13,090, that is to say, Kcs9,524 less than it was this year. According to the proposed law, disabled pensioners should have Kcs6,000 or Kcs12,000 deducted from their tax base;

holders of ZTP-P [expansion not given] cards (these are primarily blind persons) would qualify for a deduction of Kcs36,000.

[Cervenkova] The cost of commuting to one's work is also a deductible component. Will private businessmen and artists also be deducting these costs?

[Klak] This tax advantage applies only to citizens who derive income from dependent employment, not to income based on independent private activity or business income. The purpose of deducting a portion of the costs to commute from the taxable income represents an across-the-board compensation for all types of employee price reductions (that is to say, worker's commuter tickets to travel by train, by bus). The elimination of these price reductions makes it possible to take into account the management of the Czechoslovak State Railroads and the State Automotive Transportation Enterprise and make their operations more transparent.

[Cervenkova] Let us return to our "model" family, which will save approximately Kcs2,300 a year in taxes. Will that not be lost in other types of taxes?

[Klak] Within the framework of the individual income tax, taxes will be also levied on income based on securities (25 percent), payments to members of boards of directors and oversight councils (20 percent), winnings in lotteries and interest on savings deposits (15 percent).

[Cervenkova] Will not the tax on interest undermine the tendency of the population toward savings?

[Klak] Interest on savings deposits is subject to the lowest tax rate. Our model family would pay Kcs2,300 in taxes on interest in the event they had approximately Kcs155,000 on deposit (at 10-percent interest). And this is already a pretty sum. In any event, however, this family would be left with an additional Kcs13,175 of nontaxable interest income based on savings.

[Cervenkova] And what if our family owns a weekend house or a cottage?

[Klak] Then it must figure on paying a real estate tax. Laws on real estate taxes are under the jurisdiction of the republics and, in accordance with the proposal which was approved by the government of the Czech Republic it would be necessary to pay Kcs3 per year for each square meter of built-up space in a recreational facility. From these very data, it is already clear, for the most part, that the sums involved here will be less than Kcs1,000 per year so that any fears which citizens may have in this connection frequently are, I believe, unnecessary. The total proceeds from this tax would be passed to the budgets of the communities involved.

[Cervenkova] And if they sell the cottage?

[Klak] The difference between the price at which they acquired the real estate and the price at which it is sold is subject to income tax according to our proposal, as long as the time between acquisition and the sale of the

real estate is less than five years. This income is added to the overall annual income and, at higher income rates, the tax rate is also higher (we are talking about rates of income spanning from 15 to 47 percent). Similarly, the incomes would include the difference in the price at which motor vehicles are sold, as well as the difference in the price of the sale of securities, as long as the time between their acquisition and their sale is less than one year.

[Cervenkova] This means then that if our family gambled on the "certainty of a tenfold return" and the husband and wife receive Kcs10,350 from the Harvard funds, this amount is added to their taxable income base. However, not even this sum will put them into a higher tax bracket so that even this amount will be taxed at only 15 percent. Should the tax not be higher in this case?

[Klak] In no event is it possible to sell a coupon booklet. In return for this booklet, each holder of investment coupons receives an appropriate number of securities or shares in an investment privatization fund. It is only these securities that could be sold, provided adequate legislative conditions are created. For the present, our investment privatization funds are closed-end funds,

with the stockholder being able to get rid of his share only by finding a buyer for his securities himself. From the tax standpoint then, the entire affair would be handled as income based on the sale of securities (but watch out to make sure that there is an interval of one year between acquisition and sale).

[Cervenkova] What would you say to our readers in conclusion?

[Klak] I consider it completely basic to emphasize that everything that was discussed here represents only a government proposal which can undergo significant change during the debate in parliament. In other words, the tax rates used here and the other tax conditions cannot, for the time being, be counted on definitively.

In final conclusion, I take the liberty of clarifying the otherwise very valuable and illustrative article by Engineer Svatkova, which had been referred to before, on the future taxing system by stating that the new taxation system is not expecting the import tax to be legislatively modified. The taxation of imported products should be fully covered by the value-added tax and by the consumption tax.



**MDF's Csurka Discusses U.S. Experiences**

92CH0536A Budapest UJ MAGYARORSZAG  
in Hungarian 4 Apr 92 p 4

[Interview with Istvan Csurka, parliamentary representative and vice president of the Hungarian Democratic Forum, by Attila Bano; place and date not given: "A National Middle Class Is a Vital Matter; Istvan Csurka on Secret Bank Accounts, Pillage, the Opposition's Media, and Anti-Semitism"—first paragraph is UJ MAGYARORSZAG introduction]

[Text] The vice president of the Hungarian Democratic Forum [MDF] was recently invited to the United States by an American investment firm. We asked him primarily about his experiences during this visit.

[Bano] Did you take part in the preparation of any economic agreements, or even in a concrete transaction?

[Csurka] I was a member of an exploratory delegation. I visited factories as part of the program, but I did not participate in business negotiations. According to my information, the negotiations were fruitful. My personal experience also allows me to say that good business relations were established between the two countries.

**They Were Given the Runaround**

[Bano] In an earlier interview you estimated the chances for honest capitalist enterprises in Hungary. In your opinion, what is the guarantee that the fate of investments will not be decided by corrupt dealings?

[Csurka] We began building economic relations on the basis of predominantly bad traditions. We had faulty traditions in the area of foreign trade, as well. As rumor had it, this was a greater disadvantage for the country than an advantage. Of course, some groups made a profit from this situation. Old, established foreign trade relations have largely remained untouched in the present system; moreover, most of the control over these relations have now been removed. Many firms, whether they were solvent or barely functioning, sought out their partners on their own in order to sell themselves to their partners. No one was able to control or influence this process, or find out how much money was paid into secret bank accounts over and above the purchase price. In other words, we inherited a rotten state of affairs. It is indisputable that there are good aspects, as well, since numerous positive enterprises were started as investments began to flow in. The moral outrage does not mean that anyone here is against enterprises. The fact is that many Hungarians coming back had negative experiences. They were given the runaround in a maze of bureaucracy and the banks did not accept their offers graciously, while at the same time the same banks accepted other, perhaps less advantageous offers. Beyond the lack of control, there has also been a lack of regulations. The presumption that the officials inherited from the previous regime would carry out their tasks in a cleaner and more ethical way if they had the chance

was, unfortunately, too optimistic. Alas, man is not like that, and one need not blame the Communists for everything. If there is a possibility to slip through a loophole in the law or use a Reform-Communist rule which allows people to pillage freely, we need not be surprised if many people try to make use of this opportunity. These are the experiences abroad and at home which are churning in me, and they all add up to the impression that a colossal injustice is taking place in this country. Working, overanxious people living in uncertainty look on in amazement at the accumulation of millions, and they do not understand how this can be happening.

[Bano] Indeed, how is it possible?

[Csurka] Today it is possible to acquire great wealth while at the same time being corrupt when paying taxes and contributing to social security, health insurance, etc. Today it is possible to owe money and not to pay while at the same time business goes on as usual. This is unacceptable.

[Bano] The simple employee is a helpless and disadvantaged witness to the processes of privatization, to enterprises welded together from foreign and domestic capital. From his point of view, does it matter whether he draws his salary from an honest or a dishonest entrepreneur? Is it possible that he doesn't care?

[Csurka] It does matter! I care. It does matter what foundation the future is built on; it does matter what kind of middle class develops, what kinds of models it adopts for itself, and whether it represents the spirit and the ethical values of the nation. From our history we could give numerous examples of times at which the privileged classes stood in the way of national development. We did have such eras. Unfortunately, we are still paying the price for them. Today we have the opportunity to become free to develop a national middle class which has an adequate stature, value system, and identity. This is what I consider to be the most vital matter of concern to Hungarians. An employee fighting for wages is, of course, not likely to consider these aspects. We cannot really expect him to do so, but the problem is that there are some people who do not even want him to take a side in this issue. They want to foist a cultural environment on the country in which people cannot distinguish between values and an ethical void, one which makes the majority of employees indifferent. However, what does not matter for an employee today, will make a difference to his child or grandchild.

**What Happened in Washington?**

[Bano] The media have a large role in forming the cultural environment you mentioned earlier. It is said frequently these days that the problems of the media should be treated exclusively from legal and professional points of view, separated from politics. There are even accusations of governmental interference and of some parties establishing defensive positions. What is your opinion?

[Csurka] I resent even the amount of time I have to spend in answering this question. The situation is that the major media—I hate the expression—that is to say, radio and television, are to 90 percent controlled by the parties in the opposition and by the management of the old regime which was not swept out sufficiently. Thus, first and foremost we have to speak about the combatant positions of the opposition in the written and electronic press.

[Bano] Let us return to the American trip. What happened in Washington?

[Csurka] I conducted negotiations with the competent officials in the State Department who are in charge of matters concerning Central Europe and Hungary. I tried to give them information in such a way that Hungary would get more support, if possible, than it does now in carrying out the transformation of the old system. I cannot suppress the fact that one of the president's addresses to Congress included a clause which condemned me as a representative of anti-Semitism. This is detrimental not only to my person, but also to one of the leading parties of Hungary. I have no doubt that this clause was squeezed into the statement at the instigation of Budapest. Certain groups in the opposition appealed to the American Embassy in Budapest several times in order to have this clause included, and also at other times to assure that certain positive expressions which would have been useful to us were *not* included.

#### Malignant Rumors

[Bano] Did you take steps to contradict the rumors, and to convey a true picture?

[Csurka] I met representatives of the European Jewish Committee and visited the Holocaust Museum, and I had a fairly long discussion with its officers—not explaining and excusing ourselves, but just presenting the situation in Hungary. I explained how harmful it is for both parties if such falsehoods are spread, if policies are built on such mire. I think this was a very important moment in our visit to America.

[Bano] Did the opinion of American Jewish organizations on Hungary change?

[Csurka] I think it is slowly beginning to change, because the malignant rumors are not supported by fact. The gaps in the story they tell cannot be filled in, and after a while the disseminators of rumors will be asked how it is possible for so much anti-Semitism to be reported about a country where nothing is happening which could support such rumors. Because, thank God, nothing is happening. The United States cannot afford to shape its political relations with even a small country on the basis of untruthful information. Fortunately, the palette has many colors. Our governments maintain excellent relations, and we must further enhance them by presenting the reality.

#### Hungarians From Sub-Carpathia Lose Soviet Assets

92CH0529B Budapest MAGYAR HIRLAP  
in Hungarian 11 Apr 92 p 3

[Article by Z.G.: "Soviet Debt to Hungarians in Sub-Carpathia"]

[Text] The former Soviet Government is withholding assets worth 160 million forints belonging to about 200 families which resettled from the Sub-Carpathian region to Hungary. These families sold all their real and personal property in the middle of 1990 and paid in the proceeds to the Soviet central bank for transfer to the Hungarian National Bank [MNB]. To this date, these funds have not been credited to the MNB's account, according to attorney Dr. Gyorgy Ruttner in a press statement; he was hired by the families to conduct negotiations with representatives of the Soviet and the Hungarian banks.

Ruttner said that the Soviet Bank of External Economy has recognized these claims as valid, but asserted that the bank has been unable to transfer the 8 million rubles paid in earlier because a legal successor to the Soviet central bank has not been designated.

An MNB representative explained that in earlier days, persons resettling from the Soviet Union to Hungary received the forint equivalent of rubles paid in the Soviet Union based on a 1963 decree. The number of persons wanting to resettle has substantially increased by 1990, however, and the forint amounts to be paid in exchange for rubles has increased even more. Some applicants received more than 10 million forints as a result of the conversion. Since it has become apparent in the summer of 1990 that transferable rubles were not appropriate means of payment from the MNB's standpoint, the MNB has stopped making payments in forints. As a result of this action the Soviet side decided not to transfer amounts paid in by families resettling between March and October 1990. Although since that time the MNB has agreed to make payments of up to 3 million [forints] per family, it remains uncertain for now which particular financial institution of which republic is going to transfer the accumulated rubles.

Ruttner stressed that deprived of their money, these families have been facing impossible situations. They are going to seek the assistance of international organizations unless the Soviets perform on their payment obligation.

#### Nuclear Material Smuggled Into Hungary

92CH0529A Budapest NEPSZABADSAG in Hungarian  
11 Apr 92 p 13

[Unattributed article: "Uranium From the Ukraine Destined to Budapest"]

[Text] Nuclear material weighing almost 2.6 kilograms has been found in Miskolc, in the trunk of a red Peugeot.

Police received word from a citizen that radioactive material would be transferred at a certain gas station in the Borsod County seat. The police prepared itself for the action that was to include the special services division of the National Police headquarters. They arrested 43-year-old Kondo resident Janos Tresza and 41-year-old Zahony resident Janos Juhasz at the designated place on Thursday, at dawn. (Tresza has been a policeman before.) In the trunk of their car police found lead-gray bars wrapped in several layers of nylon, brought to Miskolc by Zahony resident Janos Petro in his Lada Samara. Petro has been questioned but has not been taken into custody.

The Radiation Biology and Radiation Health Care Research Institute has determined that the bars consisted of uranium dioxide containing natural uranium. In their professional view, "the radioactivity of the material is long-lasting and direct, and that exposure to radiation from a short distance is not without health hazards," according to Borsod County Deputy Police Chief Colonel Dr. Istvan Ignacz at a press conference yesterday.

The confiscated radioactive material is used in nuclear power plants but is inappropriate for the manufacture of nuclear weapons. The material has supposedly been smuggled from Ukraine to Hungary and was to be transferred to an unidentified person in Budapest.

#### **Gyula Horn Views Hungary's Security Policy**

*AU2105100892 Budapest MAGYAR NEMZET  
in Hungarian 14 May 92 p 2*

[Interview with Gyula Horn, chairman of the Hungarian parliament's Foreign Affairs Committee, by Gabor Lambert; place and date not given: "NATO Membership Would Mean the Recognition of Our Characteristics"]

[Excerpts] [passage omitted] [Horn] I very much regret the fact that some government factors disregarded the essence of my recent proposal in parliament: In my opinion, if a country declares its intention to join a Western integration organization, in this case NATO, this very declaration needs parliament to adopt a position. Therefore, I think it is important to have a parliamentary decision on such a desire and such a declaration. Our society is quite divided on Hungary's future international status. On the other hand, contradictory statements made by various NATO representatives and organizations appear almost every week on whether they are ready to provide security policy guarantees to Hungary or not. In my opinion, all this is connected with the fact that NATO is currently struggling with some sort of identity crisis, at least as far as our region is concerned.

[Lambert] In any case, our new security policy concept only takes into account international security guarantees over the long term.

[Horn] Indeed, the ideal thing for us would be to have security policy guarantees formulated in a CSCE framework, but there are 51 members states in the Helsinki cooperation and I must admit that, as far as its effectiveness is concerned, the experience is quite negative. This could be some sort of a long-term goal, but we need guarantees now. Of course, we must also consider each country's geopolitical conditions, albeit not on an ideological basis. Think of the 4 million Hungarians living beyond our borders in the neighboring countries, a population that is a source of constant conflict. They are deprived of adequate human rights, and we cannot disregard this; however, whenever we make any remarks about this, our neighbors immediately regard it as some kind of desire to gain territories. [passage omitted]

[Lambert] I think that the public feels that, despite manifestations to the opposite, NATO would not remain idle if the Yugoslav crisis escalated; this already provides some kind of tacit security guarantees.

[Horn] For me, the question is what all this contains and what it means in everyday politics? Will NATO help us in the event of a possible deterioration in the consequences of the Yugoslav conflict? What guarantees has NATO provided us since the beginning of this conflict? How has NATO prevented an accidental Hungarian involvement in this conflict so far? I cannot answer these questions. [passage omitted]

[Lambert] If we cannot get guarantees from the present institutions, does this increase the importance of bilateral relations? I am thinking specifically of Germany.

[Horn] I have always been of the opinion that no security system can replace the network of bilateral relations, and I mean both our Western relations and our relations with our neighbors, and I strongly support the existing basic agreements. We must work out some sort of a Central-East European cooperation system based on a network of bilateral agreements and on a bilateral crisis-prevention and crisis-management system. This is all the more important because, according to my experience, the Western states do not interfere in our affairs here, and they regard all this as an internal conflict. As for Germany, I think it is inadmissible to think of some sort of a German dominance. Germany has a well-defined, thorough, and concrete Central European policy, and I think this is important for our region for both political and economic reasons.

[Lambert] What is your opinion about the Visegrad cooperation?

[Horn] I am in favor of a close cooperation between the Visegrad Three, but this cooperation must not take a form that would irritate the others. [passage omitted]

[Lambert] One also hears opinions according to which even a Budapest-Bucharest axis could develop if we succeeded in solving the national minority issue....



[Horn] I think that the opinion according to which our relations would be unclouded if the national minority issue ceased to exist is some sort of an illusion or, more precisely, wishful thinking. In my opinion, the way out lies somewhere else. Naturally, a lot depends on the national minority policy, but the decisive thing is that, if Romania seriously desires to join democratic Europe, it cannot do so with its antinational minority policy. Thus, the other side also has a fundamental interest in guaranteeing national minority rights because, without this, it cannot achieve its national goals. For us, all this means that we should support Romania's EC membership with the condition that it must first fulfill the requirements. In other words, we are talking about a fundamental change in Romanian policy, rather than setting up conditions that the other side would regard as some kind of ultimatum.

### **Socialist Party Leader on Influence of Party**

*AU2105090892 Sofia DUMA in Bulgarian 13 May 92 p 7*

[Interview with Gyula Horn, chairman of the Hungarian Socialist Party, by Vesela Tsoleva; place and date not given: "We Are Concerned With the People's Specific Problems"]

[Text] [Tsoleva] In your speech at the Budapest forum of left-wing youth about 10 days ago, you delivered an address in which you pointed out that, despite the lack of a constructive dialogue with the opposition in your country, no important decision can be made without the opposition. Nevertheless, let me ask you, who rules your country?

[Horn] Naturally, the government is convinced that it rules. Nonetheless, we are convinced that the government is dealing with unimportant problems. If we were in its place, we would pursue the initiatives of the previous government—namely, the development of market economy elements, privatization and restitution included. As a matter of fact, the government has not even successfully resolved the most important problem—namely, the problem of land reform. The government is conducting a policy of state interference [etatizum] while at the same time disregarding the essential problems of the people. It did not even succeed in passing the social welfare bills for the last two years.

The country's social problems are very critical. At the same time our parliament is constantly dealing with compensation for the expropriated owners of nationalized property, while it is still uncertain where the resources for such compensation should come from, considering that they are not envisaged in the budget.

[Tsoleva] The Bulgarian Socialist Party [BSP] won three times as many votes percentagewise during our election compared with the Hungarian Socialist Party [MSZP], but its position in parliament seems to be even more difficult than yours. How would you explain this fact?

[Horn] It is perhaps, because things in your country proceeded in a different manner. The first elections in Hungary took place in a very hostile anticommunist and antisocialist atmosphere. This did not apply to the first elections in Bulgaria. In our country the new parties, namely, the former opposition, had enough time to develop their strategy. To put it briefly, our starting points were different.

Second, I am convinced that the difficult situation of the BSP in Bulgaria also results from the fact that your party remained in power and was obliged to form a government. To administer the country under conditions such as those under which the BSP was obliged to rule, is certainly extremely difficult. The BSP assumed government responsibility in a situation under which the necessary working conditions did not exist as yet. Hence, the BSP had to assume responsibility for all contradictions and shortcomings resulting from the particular circumstances.

I would like to stress once more that our starting point was different. We are capable of consolidating our positions today, because we started our work as an opposition.

[Tsoleva] Decommunization exists, both in theory and practice, in all former socialist countries. How does it affect the MSZP?

[Horn] In my opinion there is not much difference as regards the impact of this phenomenon in the individual countries. The difference is only in the intensity with which this process is manifested in each of the countries in question. The process is promised in all those countries and everywhere the whole responsibility for the past is shifted upon the so-called excommunists while everyone else refuses to have any share in this responsibility. The situation is the same in our country, and we do not see any possibility of influencing this development so long as the present government is in power.

Nevertheless, we are convinced that the public should be fully informed about the true situation and realize who is lying and who is telling the truth. There is no other way. People are becoming aware of the fact that the commitments assumed by the new parties during the election campaign remain unfulfilled. People have realized that their lives are not any better, that their living standard has even deteriorated. Hence, they will ask for a change, but it is not the system that should be changed, because we also fought for the end of the former regimes. The change we need is the change for a better policy. This is what we can do and we should do it by rejecting all forms of extremism.

[Tsoleva] You are presumably aware that our government is preparing to confiscate the DUMA Publishing House?

[Horn] On the basis of what arguments is this measure explained?

[Tsolova] The measure is based on a law, according to which the state is entitled to confiscate the property of the Communist Party and of other organizations from the era of the totalitarian regime, but also the property of the organizations that have succeeded them. The government considers DUMA as BSP property.

[Horn] This is madness, simply madness.

### **Christian Democrats Present Economic Policy**

AU2105094292 Budapest UJ MAGYARORSZAG  
in Hungarian 14 May 92 p 7

[Interview with Gyorgy Szakolczai, economic expert of the Christian Democratic People's Party, KDNP, by Jozsef Peter; place and date not given: "According to the KDNP, a Change of Economic Policy Is Needed—Growth Instead of Decline"]

[Text] At its April congress, the Christian Democratic People's Party [KDNP] accepted an economic policy program entitled "Man and the Economy," which deals mainly with short-term tasks. We can only build a future if we overcome our present economic problems, the document says. We interviewed Gyorgy Szakolczai on the KDNP's economic policy concept.

[Peter] Up to now, the public image of the KDNP has been an ideological party that does not often deal with practical issues. However, what made it necessary to express its views on economic policy issues?

[Szakolczai] The KDNP should be a program party and a party of the people which confronts the country's actual problems and seeks solutions to them; this view has become dominant in the party. Having a definite view on economic policy issues is part of this. The other reason for turning toward the economy is that, in our view, current economic policy does not show enough concern about the social aspects that our party has always wanted to emphasize clearly.

[Peter] Then the question is clear: What, in your view, should be done?

[Szakolczai] In our view, we did not make full use of the possibilities that were given two years ago, and the current state of our economy does not fully correspond to our hopes or even our possibilities. Therefore, based on the results and lessons of the four-year political program, we consider it necessary to draw up a new economic policy program for the remaining two years of this parliamentary period. Halting the economic decline and starting an economic growth are the central issues of this.

[Peter] What would be the most important elements of this program?

[Szakolczai] First of all, I would like to point out that, in the view of our party, monetary policy cannot be the primary tool of economic policy. Inflation cannot be curbed and economic development cannot be started by

reducing the amount of money. As we can see, monetary restriction has not forced the necessary changes, in fact, it has led to a decline, and monetary expansion would only generate inflation. Instead, we should deal with the supply side and be engaged in a kind of selective development policy. In our view, an economic ministry should be set up to coordinate the tasks.

[Peter] Debt-servicing and borrowing strategy is one of the central points of the Hungarian economy. What are your views on this and on the controversial issue of rescheduling the debts?

[Szakolczai] The opinion of the party's economic committee is very close to the views expressed in Otto Hieronymi's book two years ago. We must definitely strive to change and gradually improve the structure of our stock of loans so that future loans can be taken up on even better conditions. Rescheduling is not part of our program. We think it necessary to draw up and publish a long-term loan repayment and borrowing policy.

[Peter] Because of its nature, the KDNP has always been sensitive to social issues, and inflation and unemployment can certainly be linked to this. Have you found any solutions for handling the problems?

[Szakolczai] In our view, we cannot talk about inflation in the traditional sense of the word. Inflation is not a result of a large increase in the amount of money, therefore, it cannot be handled through the methods of monetary restriction. In our case, it is mainly the price-increasing effects of economic reorganization and various economic policy measures. For this very reason, halting the economic decline is a vital condition of handling inflation. Similarly, unemployment is also dependent on the decline. Rather than paying benefits, we consider active labor policy, retraining, and adjustment to the new structure as most important factors.

[Peter] However, do you have a prescription on how to stop the decline and how to start growth? It certainly will not happen by command.

[Szakolczai] The country's fundamental problem is that our economic structure does not fit into the world economy. As a result, the Hungarian economy is unable to produce the export necessary for a balanced development while its import requirement is too high. In such a situation, balance can be restored in the short term through restricting demand and production because the import needs can be reduced this way. In addition, producers are forced to export because there is not enough domestic purchasing power. However, this policy actually undermines the development possibilities on the long term.

Therefore, in our view, growth can only be started through selective export development. Hungarian foreign trade is a successful area in the sense that a large part of the former eastern exports have been redirected to the West, and our foreign economic and international payment position is better than we ever expected. This

shows that this road can be followed. If we concentrate even more on this, in our view, central task then we can establish a foreign economic position that can be the starting point of further expansion.

### **Expo Council Formed; Commissioner Interviewed**

92CH0534A Budapest *MAGYAR NEMZET* (Economic supplement) in Hungarian 16 Apr 92 p 1

[Interview with Laszlo Kristof, Budapest Expo commissioner and member of the Expo Council, by Zsuzsa Pato; place and date not given: "We Trust There Will Be a Sufficient Number of Investors!"]

[Text] Parliament has ruled that, in order to regulate the strategic problems in connection with Expo 1996, a body be created consisting of 10 members, the so-called Expo Council. The organization has now been formed, in effect. One of the four council members nominated by the chief mayor was Laszlo Kristof, Expo commissioner of Budapest, who had been the Hungarian delegate to the International Bureau of the Expo (BIE [International Bureau of Exhibitions]). From the interview with the commissioner of Budapest it appeared that the administrative heads in Budapest had not taken issue with the Expo earlier; they had only argued that Hungary should organize it at a different time and in a way that is different from the original plans. It is also apparent from Laszlo Kristof's words that although a decision has been made on the event to take place in 1996, the bulk of the work necessary to carry out this decision is still ahead of us.

[Pato] First of all, we should clarify what are the strategic problems which require decisions.

[Kristof] There are four different but interconnected groups of tasks: We must make a decision on the creation of an infrastructure at the site of the Expo and its surroundings; we must carry out the actual organizational tasks of the event; we must ensure that Budapest has adequate capacities to host the visitors; and on top of all this we must take steps to ensure that we have enough money for the realization of the Expo. The money must come mostly from private investors, but the utilization of real estate owned by the state or the self-governments is also expected.

[Pato] It is perhaps not uninteresting to talk about some issues in more detail.

[Kristof] Let us take them one by one. The tasks in connection with the infrastructure are included here because the site of the Expo must be provided with a basic infrastructure, that is to say, with public utilities, roads, telecommunication facilities, and services to protect the environment; Expo will be organized at a site where all of these are missing at the moment. One can see this both as an advantage and a disadvantage of the Expo. At any rate, it is a fact that the World's Fairs of the past 50 years—in Canada, the United States, Belgium, Australia, and Japan—were also set up as projects in the

middle of nowhere, but in such a way that the organizers were able to count on the participation of functioning capital. On the other hand, there was a demand in these countries, as well, that the city chosen as the site of the World's Fair be rejuvenated and modernized. The investors had no doubt that they were putting their money in the right place. The investors knew, for instance, that Brussels stood a good chance of becoming the headquarters of NATO and of the Common Market. Montreal was attractive because it was apparent that French Canada would need a modern capital. For these reasons, the development of an infrastructure was financed mostly by private capital. Of course, Budapest also wants to be developed, since it has to catch up in the area of infrastructure, and it wants to become one of the economic and cultural centers of Central-East Europe. One must add that the idea of a World's Fair "based on enterprises" has almost become a slogan in Hungary, but in my opinion we rather ought to talk about an Expo "based on investment."

[Pato] We heard about this idea earlier in connection with the declarations of intention. Some people have already regarded these declarations as decisions to invest. Is there word on the seriousness of the declarations of intention?

[Kristof] These declarations of intention were not given for concrete projects, but only in general terms. An announcement that there will be a World's Fair at such and such a time, and in such and such a place: Do you wish to invest in it?, could not result in anything other than an indication by the investors that, yes, they could consider coming here. As one says, a soft answer was given to a soft question.

[Pato] This is almost history. However, by now you could have received "hard" answers as well.

[Kristof] As far as I know, one of the most important tasks of the newly rejuvenated Programming Bureau is to examine if there are among the early applicants any with whom it would be worthwhile beginning negotiations now. Before this, we had to complete the global planning of the area in question, in order to be aware of what kinds of development will be necessary. Budapest has only a general plan for development which had been prepared in 1989 and, of course, it does not include the idea of an Expo. Thus, we have to modify the plan of the area in question, and at the same time we have to complete the detailed development plan of an area of 80 hectares. All of this must be finished by 31 May in order to be able to start concrete negotiations and to publish an invitation for bids.

[Pato] One hears more and more often that the organization of the Expo has been delayed to such an extent that the time can hardly be made up any longer, especially because, as they say, the Programming Bureau, the capital, and the districts do not agree on the plans.

[Kristof] Indeed, one can hear such opinions. However, I consider it a very good sign that the three parties have

already reached a compromise in a number of areas. Incidentally, Budapest is just about to open up public discussion on the general plan for development which has been prepared by VATI [Urban Planning Office].

[Pato] The news on the compromise sounds too good, or rather too unlikely. It is enough to mention the water treatment plant projected for Csepel.

[Kristof] This question will not be decided now. We must first arrive at an agreement in those questions which are indispensable for the organization of the Expo. Of course, anyone would be justified in saying that the water treatment plant is already necessary today, and it is a fact that many projects which are important from the point of view of the capital will be passed up in favor of other developments which will ensure the organization of the exhibition and the capacity of Budapest to cater to visitors. Just to mention a few: lengthening the line of streetcar No. 1 or modifying the line of streetcar No. 2 could have been postponed until after other, more urgent problems have been solved. But I cannot emphasize enough that every development of the infrastructure which will be completed by 1996 in Budapest will be a necessary development, even apart from the exhibition. Contrary to many others, in my opinion the critical feature of the Expo is that today we do not know yet if there will be enough foreign or Hungarian investors to carry out the projects.

[Pato] In your opinion what is the latest deadline to find out if there is enough tangible intent to invest?

[Kristof] The end of this year, and then perhaps we will not have missed anything yet.

[Pato] It is no small matter how much money will ultimately be necessary to organize the exhibition, since several figures have been mentioned.

[Kristof] We are talking about approximately 120 billion forints at 1990 prices, 17 billion of which will be provided by the state budget, and Budapest has 4-5 billion for this purpose. In other words, we would need to generate about 100 billion forints in investments. This is a significant amount in itself. In addition, I have just read a troubling interview with Mr. Macary, the French architect coordinating the development plans of the exhibition. The journalist asked him how much money is necessary to carry out the plans and where that money will come from. The architect replied that he was not interested in this matter, this was not his problem.

[Pato] The answer is logical, since Macary's job is the planning and not the financing.

[Kristof] Yes, but the situation would be very dangerous if we found out that the clients had not told him where the limit was. That is to say, if they had not asked him to make several plans, or one flexible plan taking into account every possibility. Moreover, in this interview Macary mentioned that 100 exhibitors will come here. In my opinion, we can be satisfied if 40-50 countries set up

exhibitions at their own cost. Over and above this, we can count on the participation of at most 10-15 multinational companies. For these reasons we would be well advised to think in terms of a Lego-like, expandable, enlargeable exhibition, assembled from elements which could be adjusted to the actual demands of the exhibitors and which could be utilized elsewhere after the event. But a lot will depend on the bids we invite for projects which provide for subsequent utilizations, and on the efficiency and decisionmaking ability of the organization which judges the bids. Moreover, one must avoid by all means, if only for the lack of time, the possibility that anyone could question decisions which had already been made. In every phase of the work one must, of course, insure controllability, transparency, and the equality of chances. Furthermore, the time is critically short, not only from the point of view of technological realization, but also because one needs time to mobilize investment capital. It is evident that it was not possible to found the economic enterprises connected with the exhibition before parliament and the BIE had made their decisions. However, it would have been possible to prepare the foundation to the extent that once the decisions had been made, the mechanism could be started by the push of a button, i.e., that inaugural meetings could convene at once.

[Pato] This is a strange statement coming from you of all people, since in recent months you, as an adviser of Gabor Demszky, and the chief mayor of Budapest, as well, have become known to the public as opposers of the Expo.

[Kristof] This is a great misunderstanding. Neither one of us was against the Expo; we only said that it should be organized at a different time and in a different way. Since then it has become apparent that the exhibition will not be organized in 1995, not together with Vienna, and not on an area greater than 300 hectares.

[Pato] In conclusion, allow me a personal question. Do you believe that in 1996 Budapest will be the site of the World's Fair, and that the city will present itself to the world in such a way that it will not be disgraced?

[Kristof] To achieve this goal, a lot of very careful financially and economically sound work will be necessary, and its accomplishment must not be disturbed by any partisan quarrels. Moreover, the circle of those assuming responsibility still must be clarified. And we must avoid a situation by all means in which the state budget is forced to finance the World's Fair with a greater amount of money than what had been planned, instead of having it financed by private investors.

**Status of Infrastructure Analyzed, Compared**  
*92CH0530A Budapest FIGYELO in Hungarian*  
23 Apr 92 pp 1, 21

[Article by Peter Foti: "Infrastructure; Ragged Background"]

[Text] By no coincidence, the EBRD [European Bank for Reconstruction and Development] dealt with infrastructural issues at a conference preceding its Budapest general meeting, because backwardness in this field could become the main obstacle to development in the East European region. This is supported by most recent KSH [Central Statistical Office] data describing conditions in Hungary.

Hungary ranks 17th among the 20 European countries from the standpoint of housing supply, with a

volume corresponding to 50 percent of housing units available in Austria. Barely one-fifth of village households enjoy the advantages of piped natural gas. In 1990, less than half (42 percent) of the country's housing stock has been connected to public sewage networks. In that year some 970 million cubic meters of sewage has been created in Hungary, 20 percent of which entered the environment after appropriate treatment, 70 percent after partial treatment, and 10 percent untreated.

**Distribution of Investments in Hungary  
(in percentages; based on current prices)**

	1950	1960	1970	1980	1990
Infrastructural branches:					
Transportation	14.1	13.1	11.2	10.8	7.0
Postal service and communications	1.9	0.7	1.3	1.9	4.6
Commerce	2.3	3.0	3.1	4.7	6.0
Water resource management	0.8	1.6	4.0	5.5	5.7
Housing construction	20.8	15.4	15.3	17.8	20.3
Health-care provisions	0.8	1.0	1.0	2.0	2.2
Cultural services	2.7	3.5	3.3	4.8	3.8
All other investments	57.3	42.1	43.8	51.8	59.3

Due to districting ordered by the central government, the number of elementary schools has declined by 44 percent (!) since 1960. In 1990, there were 33.6 students for each high school classroom, only 1.5 fewer than 30 years ago.

As long as we interpret the term "infrastructure"—adopted from the U.S. military language into the Hungarian—to mean all background activities that serve production and consumption, we find that the economic show is being performed in Hungary against a rather ragged background. The retarded state of the infrastructure that is supposed to ensure the undisturbed process of production distribution and consumption places obstacles in the path of the most important live [életvilág] processes. Here is a panoramic view of the varying stages of backwardness in these fields, based on a recently published study prepared by the KSH.

To begin with, let us summarize: In the early 1990's the developmental stage and state of the art of the Hungarian infrastructure in general fell behind the level that would be appropriate for its present stage of economic development and the expectations of society. The reasons for this may be found primarily in (political) history: We are facing the miserable consequences of four decades of delayed infrastructural development. The extensive industrial development of the 1950's has drained resources that could have been made available for the development of a background economy, while in the 1960's, 1970's, and 1980's we made hardly any progress in narrowing the infrastructural gap between ourselves and the developed world. Individual elements of background services that support life and the economy fell behind in varying degrees of needed and

desired levels, and the degree of backwardness varies greatly between different regions of the country.

In current prices, the GDP of 1990 exceeded 2,000 billion forints. The value of the GDP has tripled during the past three decades, even though in recent years growth has been replaced by stagnation and, as of two years ago, by decline. Branches which clearly provide infrastructural services have contributed less than 25 percent of the GDP in 1960, in 1970 this ratio exceeded 30 percent, and by 1990 has increased to more than 40 percent.

In 1950, three-fourths of the labor force was employed by the productive branches, and only one-fourth worked in the infrastructure. In 1970 this ratio has changed to two-thirds and one-third, and by 1990 an almost identical ratio existed between the two fields: 53 percent of the labor force was active in the productive sectors and 47 percent in the infrastructural branches. From among the various service background industries, transportation, the postal service, and communications show the greatest decline in terms of number of people employed. On the other hand, the ratio of persons engaged in personal and business services has increased by a small degree, from 6.3 percent to 10 percent. But this expansion could have intensified since, because new, small companies established during the past two years have specialized in these fields.

Consistent with then current world standards, almost 80 percent of Hungary's fixed assets had an infrastructural character in the early 1950's. Due to distorted economic development and as a result of the art of cutting things



short, this ratio has dwindled down to 55 percent during the 1970's. Due to a change in the composition of investments the fixed asset share of the infrastructure has increased to 60 percent by 1980, and once again stagnated, or increased only slightly, during the 1980's.

Between 1950 and 1960 investments in the infrastructural branches has increased by 44 percent at constant prices, while productive investments expanded by almost 150 percent. During the developmental fever of the 1970's the ratio of infrastructural investments has come to a halt following an initial increase, then once again dropped below 50 percent between 1977 and 1979. Beginning in 1980 this ratio has exceeded the 50-percent level, moreover consistently and continuously from that point on.

The volume of investments in the national economy amounted to 29 percent more in 1990 than in 1970. At that time industrial development (32.3 percent) has exceeded the average index. Investments in the construction industry (92.4 percent) fell below the average index figure, and so did agricultural and forestry investments (59.3 percent) to a significant degree. From among the infrastructural branches having a material [nonpersonal service] character the volume of investments fell behind the average growth rate only in the transportation, postal service and telecommunications fields in 1990. The 1990 volume of investments in the nonmaterial [personal service] branches exceeded the 1970 level by 55.2 percent.

As a result of developmental policies of this kind, the condition of the chief Hungarian infrastructural branches in the 1990's is as follows:

**Housing.** The 1990 census recorded 3,817 housing units; 16.6 percent of these had only one room, 44.7 percent two rooms, and 39 percent three or more rooms. During the 20 year period the number of residents per 100 housing units has dropped from 327 to 237, and the number of rooms has increased from 164 to 237. According to a 1985 assessment, Hungary ranked 17th among the 20 European countries from the standpoint of housing supply, corresponding to 50 percent of the comparable Austrian housing supply.

**Electricity, gas, water.** Ninety-nine percent of the occupied housing units has electricity. In 1990, 1.7 million persons used piped gas in about 42 percent of the housing units. In villages, however, only 20 percent of the households enjoyed the advantages of piped gas. Ninety-two percent of the populace received its water supplies from water mains. Two years ago, less than half of all housing units (42 percent) has been connected to public sewage networks.

**Transportation.** Much of the railroad track network needs to be renewed. One quarter of the total length of

track has been built on banks 30 years ago. From among the 1,633 railroad engines operating in early 1990 only 214 were less than 10 years old, and only 957 of the 4,053 passenger cars were of the same age. Forty percent of the 69,000 freight cars has been in service for more than 20 years. As of early 1991, there were 3.8 kilometers of highways and paved roads for every 1,000 square kilometers of land area in Hungary. Three years earlier, the same ratio was 16.8 in Austria, 50.5 in Holland, and 4 kilometers in Czechoslovakia.

**Telecommunications.** The development of telephony in Hungary has been accelerated in recent years. In early 1991 there were 996,000 connected main stations, and 257,000 of these (25.8 percent) were installed during the preceding five-year period. Thus the number of telephones per 1,000 residents has increased to 181. In the second half of the 1980's the same ratio was 640 in the FRG, 621 in Holland, 508 in Austria, and 255 in Czechoslovakia.

**Commerce, hospitality industry.** Since 1980 the retail shop network has shown a 70 percent expansion. Of the 75,800 shops operating in early 1991, 10,600 (14 percent) opened in 1990. There were 26,000 hospitality industry units at the end of 1990; the network has increased by 3,100 units in the course of one year.

**Health care.** Hungary ranks at par with the European center field insofar as the number of hospital beds is concerned. In the late 1980's there was one hospital bed for every 91 persons in Austria, 67 persons in Finland, 97 in Switzerland, 101 in Hungary, and 111 in Belgium. The average age of hospitals in Hungary is almost 50; 10 percent of these are obsolete from a technical standpoint and 13 percent require full reconstruction. The increase in the number of places available in social welfare homes significantly fell behind the needed growth rate.

**Education.** Due to school districts drawn by the central government and because of a deteriorating building stock, the number of elementary schools has decreased by 44 percent (!) during the past three decades. In 1990 the classroom/student ratio was 1/33.6, only 1.5 fewer students were in each classroom than 30 years earlier. Compared to 1980, the number of functioning institutions of higher education has increased by ten as of the early 1990's. In 1988, 14.8 percent of persons between the ages of 20 and 24 were studying in Hungarian institutions of higher education, while the same ratio was 30.5 in Austria, 25.1 in Bulgaria, and 40.1 in Finland. At the same time however, this ratio was 14 percent in Portugal.

The conditions of the infrastructure supposed to provide background services to Hungarians during the decade of the 1990's can best be qualified in light of an international comparison. This, then, also provides an agenda to be followed.

**Characteristic Ratios of Infrastructural Branches in Europe in the Late 1980's<sup>a</sup>**

	Percentage Ratio of Infrastructural Branches as Part of the:		
	Number of Employed Persons	GDP	Investments
Austria	63.0	61.5	76.0
Belgium	71.0	71.3	70.0
Denmark	66.9	69.2	78.1
United Kingdom	70.0	66.2	81.3
Finland	61.0	61.5	75.7
France	65.9	68.2	77.8
Greece	44.6	58.8	73.4
Holland	67.9	65.3	70.0
Ireland	—	61.4	65.2
FRG	57.2	60.0	75.9
Norway	70.1	64.6	61.7
Italy	61.2	68.0	—
Portugal	42.4	57.1	75.3
Spain	56.5	60.0	—
Sweden	68.0	66.9	73.1
Bulgaria	34.1	—	—
Czechoslovakia	40.2	—	39.1
Hungary <sup>b</sup>	41.6	45.2	56.3
GDR	39.8	—	32.2
Poland	34.9	—	49.7
Romania	26.7	—	31.1
Soviet Union	42.3	—	43.0

<sup>a</sup>In general, the data apply to 1988 and 1989.<sup>b</sup>1990 data.

Source: Calculated on the basis of data provided by OECD National Accounts, Vol. II, 1976-88 and 1977-89, (Paris), *Socialnoekonomicheskoe Razvitiye-Stran-Scienv, SZEVI 1989 godu (CEMA, Moscow)*

In developed West European countries the infrastructure has been playing a dominant role in the macrostructure of national economies for quite some time. In most of these countries the ratio of the number of persons employed in the background industries has reached between 57 and 71 percent by the late 1980's. This index figure has been highest in Belgium, Norway and the United Kingdom (60-70 percent). Among all European countries, the infrastructural employment rate is lowest in the countries of the Central-East European region; the ratio is above 40 percent in Hungary, Czechoslovakia, and the Soviet Union, and between 35.7 percent and 26.7 percent in Poland, Bulgaria, and Romania.

In West and South Europe the infrastructure's share of the GDP has come close to 60 percent. In Hungary, this ratio was about 42 percent in 1980, and exceeded 45 percent in 1990. According to capital movement data,

infrastructural branches operate an average of 74 percent of all fixed assets in OECD countries. In economically developed European countries, too, about three-fourths of all annual investments is targeted for infrastructural services. This ratio is far lower—about 40 percent—in the former socialist countries, but in recent years it has consistently exceeded 50 percent in Hungary, moreover, it has come close to 60 percent in 1990.

True, in the meantime the amounts available for investment have dangerously shrunk in Hungary, and thus the absolute figures related to infrastructural development are less favorable than the index figures showing proportionate shares.

In the international ranking of infrastructural provisions Hungary is the lagman in terms of housing supply. Based on statistical index figures the health care infrastructure is relatively favorable, these figures, however, do not show the quality of health care provided. The level at which Hungarians use transportation and communications amounts to 24 percent of the same in Austria; this ranks us 18th amount the 20 European countries. Only Turkey and Portugal fell behind Hungary in our comparison of the various countries. As compared to Austria, education in Hungary is at the 74-percent level, entertainment and cultural services at the 64-percent level, and the purchase of books and periodicals at the 63-percent level. These index figures rank us 14th to 16th among the various countries.

### Legality of Foreign Exchange Savings Questioned

92CH0530C Budapest FIGYELO in Hungarian  
23 Apr 92 pp 1, 13

[Article by Janos Kun: "The Origin of Individual Foreign Exchange Savings; No Immaculate Dollars?"]

[Text] Foreign exchange deposits play an important role in financing the budget deficit; these deposits have also played a decisive role in the development of a favorable balance of payments. In searching for the reasons of the seemingly pleasant increase in foreign exchange deposits, the author discovered that much of this money was of illegitimate origin.

The ratio of foreign exchange deposits in individual savings is on the increase: As compared to a 15.8 percent increase in forint deposits between 1 January and 31 December 1991, savings in the form of foreign exchange have increased by 85.2 percent. As of 31 December 1990 only 21 percent of all individual deposits were in the form of foreign exchange. This ratio has increased to 31 percent by the end of December 1991. The increment in all savings deposits amounts to 102.1 billion forints, and about 60 percent of this (60.9 billion forints) is in the form of foreign exchange. As of 31 December 1991 the total amount of foreign exchange deposits amounted to 132.4 billion forints, the equivalent of \$1.750 billion.

Foreign exchange deposited in individual accounts could originate from various sources:

—*Legitimate sources:* gifts received from foreigners, per diem payments or savings from salaries while working abroad, royalties, patent income, etc.

—*Illegitimate sources:* foreign exchange purchased at the black market or received for foreign tourism services, other services or merchandise sold to foreigners, for work illegally performed abroad, for illegal exports, etc. A strict interpretation of the law also prohibits the depositing of travel allotments to foreign exchange accounts.

Most foreign exchange deposited has certainly been derived from illegitimate sources. As of September 1989, controls over the origin of foreign exchange deposited in individual accounts have been discontinued, and the large-scale growth of the amounts deposited in these accounts began thereafter.

Opportunities for "laundering" illegitimate foreign exchange have also existed prior to September 1989. For example, a Hungarian citizen could have instructed a foreign bank to transfer foreign exchange to to his account "for travel purposes." Accordingly, all deposits made prior to September 1989 did not originate from legitimate sources either. But it took an effort to launder the money; it involved a certain risk. Therefore it is likely that a large part of the illegal foreign exchange savings that accumulated prior to September 1989 were kept in the homes of individuals in the form of cash or at foreign banks.

We tried to obtain information concerning the role played by savings accumulated in previous years and decades, insofar as the growth of foreign exchange deposits on individual accounts was concerned in 1990 and 1991—funds that trickled into the Hungarian banking system after controls over the source of origin were discontinued. (It would be important to know if these funds have played a significant role, because the growth rate of these foreign exchange deposits must certainly decline after a while since their volume is finite.)

Quite naturally, we were unable to obtain such information either from depositors or from foreign banks in which Hungarian citizens deposited funds. We assumed that Hungarian individuals deposited their foreign exchange primarily in Austrian banks, presumably in the form of schillings [S], and that whenever these people brought such funds to Hungary, the ratio of the schilling in the Hungarian banking system would also have increased. But information we were able to obtain concerning individual deposits in various foreign currencies was more accurate, except that the data contained actual foreign exchange deposits and account conversions in a combined form. Since the amount of funds converted could substantially exceed the amount of deposits made in the form of foreign exchange, this information base proved to be useless.

Hungarian commercial banks may sell to individuals foreign exchange acquired in any way, and may make payments to persons in whose names foreign exchange accounts have been established. In the end, whatever surplus funds existed would be transferred to the central foreign exchange account of the MNB [Hungarian National Bank].

Quite naturally, the composition of foreign exchange deposited in the MNB's central foreign exchange account is influenced not only by foreign exchange received by commercial banks, but also by changes in the proportion of various foreign currencies sold by commercial banks. Most of the large-scale private imports transacted between November 1988 and April 1989 with the support of customs rules and regulations, originated from Austria. Thus, one could have assumed that the ratio of foreign exchange sales in the form of schillings would have increased during this period, i.e., that commercial banks would have transferred fewer schillings to the MNB. Based on this logic, the ratio of schillings paid into the central foreign exchange account of the MNB should have increased after the termination of mass private imports.

#### The Seven Giants

We also analyzed<sup>1</sup> the foreign exchange receipts of the MNB central foreign exchange account for the period beginning in 1987 and ending in November 1991. Our examination focused on seven currencies: the Austrian schilling, the USD [U.S. dollar], the DM [German mark], the GBP [British pound], the Lit [Italian lira], the CHF [Swiss franc] and the SKr [Swedish krona]. Based on "spot checks" it was possible to determine that these currencies made up 90 percent of all convertible foreign exchange receipts, and that 15 other foreign currencies not examined would not significantly influence the outcome of the analysis.

From among the seven foreign currencies analyzed, the Austrian schilling, the U.S. dollar, and the German mark represented between 80 and 90 percent of the payments to the MNB central foreign exchange account. The dollar ratio of such payments fluctuates between 10 percent and 25 percent. The ratio of German mark payments shows a growing trend during the period examined. While between 1987 and 1988 the ratio of the mark has fluctuated between 25 percent and 40 percent, it has reached a 70-percent ratio in 1990, and has not dropped below 35 percent in 1991 either.

Consistent with our assumptions, the ratio of payments in the form of schillings to the MNB central foreign exchange account has dropped between November 1988 and April 1989, from the previously characteristic 30-40 percent ratio to 20-30 percent. But the previous ratio was not restored once the mass private imports stopped. Contrary to our assumptions, the ratio of the schilling



has not increased since September 1989, i.e., since individual foreign exchange deposits were liberalized. Accordingly, the assumption that individuals deposited increased amounts of foreign exchange once they returned moneys previously deposited in Austrian banks to Hungary after such deposits have been liberalized, has not been proven.

### Not Black

It is likely that in past years and decades moneys deposited by Hungarian citizens—one may assume primarily in Austrian banks—and foreign exchange reserves kept in the homes of Hungarian citizens, has played a significant role in the private import transactions of 1988-89. These transactions, with an estimated worth of more than \$1 billion, were not accompanied by an increase in the forint's black market rate, even though foreign exchange funds did not suffice to pay for all the private import transactions. (Although individual foreign exchange purchases in 1989 set a record and amounted to \$800 on a per capita basis, some of this amount actually served the purpose of tourism.)

We examined the loss [*diszazsio*] of the forint's black-market rate beginning in May 1988, based on Vienna quotations. The black-market rate has not increased even after funds were deposited to individual foreign exchange accounts. Moreover, the sudden increase in the volume of individual foreign exchange deposits has been accompanied by reduced losses in the black-market rate, and this situation still prevails today. The supply of foreign exchange at the black market could also have increased in recent years, and this, too, could have caused a reduction in the loss. But it is likely that this increase in supply was not significant, because the official exchange of foreign currency per each night spent by visitors in Hungary has also increased significantly during the past two years. Accordingly, most of the increased volume of individual foreign exchange deposits did not originate from black-market purchases.

The liberalization of foreign trade activities took place parallel to the liberalization of individual foreign exchange deposits. This was the time when exports by private enterprises began to develop. In the framework of the previous controlled foreign trade conducted centrally by large enterprises and foreign trade enterprises, there were fewer opportunities to issue export invoices showing lower than actual prices in order to circumvent foreign exchange and tax authorities and to pay part of the export revenues directly to producers. This is the likely source of a significant part of the increased volume of individual foreign exchange deposits.

### Not White, Either

Foreign tourism and work performed abroad has also been liberalized simultaneously with the liberalization of individual foreign exchange deposits. Authorizing and controlling work performed abroad is no longer the

function of Hungarian authorities, but of foreign authorities. It is likely that foreign exchange income derived from work performed abroad—a significant part of which is certainly illegal—is another reason why individual foreign exchange deposits have increased.

It is conceivable that foreign-owned moneys are also included in individual foreign exchange deposits. One must consider, however, that when opening a foreign exchange account, the depositor must prove his citizenship, and that accounts opened by foreign depositors are separately maintained by financial institutions. Thus, foreign-owned foreign exchange could appear among individual foreign exchange deposits only if a foreigner asked a Hungarian citizen to open a foreign exchange account on his behalf. Since in such instances the Hungarian citizen would dispose over the account, this kind of transaction could be risky from the standpoint of the foreigner. We are not aware of any circumstance that would provide an incentive for foreigners to take such risks; foreigners themselves could deposit foreign exchange at Hungarian financial institutions. For this reason it is unlikely that foreign-owned funds represent a significant part of foreign exchange deposits.

### A Matter of Confidence

The dynamic growth of individual foreign exchange deposits indicates that broad strata of society lack confidence in the forint and anticipate a forint devaluation. These sentiments have prevailed despite the fact that it would have been worthwhile to maintain forint savings accounts ever since individual foreign exchange deposits have been liberalized because of differences in interest paid on forint deposits versus foreign exchange deposits, as well as actual forint devaluations that have taken place. This is particularly true regarding the period that followed the 7 January 1991 devaluation. The most important reason for a lack of confidence in the forint is probably the fact that the forint is not convertible at the level of individuals: If individuals convert foreign exchange acquired in any way into forints, it is, in principle, impossible to accomplish the reverse, and there may be obstacles even from a practical standpoint.

Most certainly, foreign exchange deposits are also attractive because the interest income earned on such deposits is tax exempt.

The growth of foreign exchange deposits also indicates that people have confidence in the Hungarian banking system. They have confidence in bank secrecy and are not concerned about political risks, (such as the freezing of accounts, etc.). People may also want to maintain foreign exchange accounts because deposits in those accounts are better concealed from the tax authorities.

### Summary

Accordingly, it is likely that the growth in the volume of individual foreign exchange deposits cannot be attributed to some temporal reasons. It is likely that the savings introduced to the Hungarian banking system

have not been accumulated earlier, but instead, new savings have been generated as a result of a relaxed discipline in taxation and finances, and because of the opportunity to freely cross borders. This situation may also prevail in the future unless financial discipline and tax enforcement are improved, and if the populace continues to prefer to maintain its savings in the form of foreign exchange. If savings in the form of forints become more attractive (e.g., by reducing or abolishing the source tax, or if the forint becomes convertible at the individual level), the same savings would be converted into, and deposited in the form of forints.

In Hungary the mark and the dollar function as global currencies because these are used not only by the citizens of the two countries which issue these currencies. All correlating calculations point to this fact.

**Footnote**

1. Calculations were made by Mrs. Hell, Dr. Judit Tesy.

**New Combined Loan Structure Criticized**

92CH0518A Budapest FIGYELO in Hungarian  
9 Apr 92 p 26

[Interview with Dr. Sandor Maka, managing director of the Hungarian Artisans Chamber of the National Association of Trade Guilds, by G.S.; place and date not given: "Not Enough by a Long Chalk"—first paragraph is FIGYELO introduction]

[Text] Small entrepreneurs have frequently and in many places complained that, in the course of privatizing state property, the Antall administration pushed them to the edge of the field; next to the "big ones" at home and the foreign firms, they have not even had a chance to kick the ball. The Subsistence Credit [E Credit], the purpose of which is to help purchase state property, has not been of any help at all because the conditions for obtaining it are unfavorable. The government recently modified the conditions for obtaining E Credit: It is now available to more people under more favorable conditions. (See the 1992/14 issue of FIGYELO.) We asked managing director Dr. Sandor Maka what small entrepreneurs—i.e., the IPOSZ [National Association of Trade Guilds] Hungarian Artisans' Chamber, which represents their interests—think of this measure.

[Maka] It was never the importance of the E Credit that the IPOSZ questioned; instead, we maintained that such forms can only be auxiliary tools in case the incentives for expansion and privatization are already present in the general mechanism of the economic requirement system and in the regulatory system. From the aspect of small industry, the regulatory system does not have such an "abundance of stimuli" at present. We are talking about subsistence and nonsubsistence, not about expanding activity or accumulation and its resources. For this reason, we can only think of the E Credit as an important, albeit still only supplementary, element of economic incentive.

The name of the E Credit also indicates its purpose: to create subsistence and self-employment for the beginning entrepreneur and, thus, at the same time, also help the privatization carried out by the state and the local governments. The present changes are beneficial from many aspects, promising less expensive and more serious sources of credit that are adjusted to declining inflation. But our concern continues to be that they cannot be used for precisely their originally intended double purpose. One of which is to create a means of subsistence. Although the extent of self-contribution and the terms of maturity are appropriate, they still do not finance the entire project; they do not cover the costs of privatization, which, in the case of small amounts, may be twice as much as the amount of self-contribution. Our other concern is that they are unsuitable precisely for the beginning entrepreneurs; in our opinion, those who already have resources of their own are able to obtain them, but the "man walking in from the street" cannot.

In addition, such a setup can operate well only if it is well structured. This competitive system disregards the fact that the competitors are in quite diverse positions. Now that companies of private persons may also compete, the conditions applied to companies and those applied to private tradesmen and beginning entrepreneurs should be separated. Our purpose cannot be to force the private entrepreneur, as our tax system does, to either endure lower competitiveness or to change the form of his firm. In our opinion, a differentiation between the conditions would not violate the norms of this setup which are otherwise advantageous. It is good to abolish the upper limit of 50 million forints but, since the resources are limited, those with a smaller amount of self-contribution should be given an assurance that they, too, can obtain credit.

[G.S.] Do you have the same opinion of the Start Credit, also?

[Maka] Yes, we consider it a supplementary setup, similar to the E Credit but even somewhat more advantageous; its 1992 budget of about 4 billion forints is, at the end of March, already being depleted. We do not know whether next year's budget will, this year also, be brought forward; at any rate, we are talking about a small amount, for only a few thousand of the 400,000 entrepreneurs would be able to obtain an amount of about one million forints. This is why we say that such setups can only have a supplementary function. Entrepreneurs are starved for advantageous loans, for they are unable to accumulate [assets] from their own resources, and cannot afford commercial bank loans.

[G.S.] I think one reason is a lack of collateral fund....

[Maka] Collateral fund is not only an old concern of private tradesmen but it is also a most sensitive issue. Setting up a fund is a good idea and is sorely needed. More than a year ago, the IPOSZ began organizing the Trust Guarantee Association, using the resources of its own members. Nineteen such organizations are already

operating in the country, under contracts with six commercial banks. The organization has been, or is being, set up on an Italian model, with modest capital; its members pay 7 percent of their sales receipts for this purpose.

We would have liked the state to contribute to the operation of this organization for we think that besides the National Guarantee Fund the existence of similar self-organized associations will also be justified and they will also be in need of domestic and international support. We do not believe that we would be competing with ourselves; much rather, the point would be cooperation and division of labor. Moreover, we cannot be accused of preferring only specific kinds of setups. We would provide a guarantee for every credit but, of course, only for tradespeople.

In summary, in the opinion of the IPOSZ Hungarian Artisans' Chamber, a complete and final solution could be brought about only through a long-term economic policy with incentives for enterprise and through corresponding means and conditions.

[G.S.] Last week, at the proposal of three SZDSZ [Alliance of Free Democrats] party representatives, parliament put it on its agenda and modified the much-criticized Paragraph 47 of the szjs [expansion unknown] law, which deals with the withholding of a 3-percent advance tax payment. What is your opinion on this decision?

[Maka] We can be only partly happy about this decision. For, on the one hand, the 3-percent advance tax payment remains, although it could be deducted in the future by the tradesman, not by the [tax]payer. At the same time, however, the advance payment continues to include not only incomes but also expenditures. The other alternative is to have the individual entrepreneur make advance tax payments quarterly on the basis of his receipts in the given fiscal year, so that 20 percent of the income, calculated from the beginning of the year to the payment dates, will appear as a tax advance.

This method differs from the previous one in that it is not the payer but the entrepreneur who carries the administrative burden and who, consequently, must close his balance at the end of every quarter as if he were closing for the year. In other words, both a lack of trust and discrimination continue to exist. The proposal of the IPOSZ Hungarian Artisans' Chamber was that individual entrepreneurs, similar to companies, would be allowed to determine and pay their tax advances on the basis of their taxable income of the previous year. Finally, an advantage of the modification is that those who suffered losses or had no profits in the previous year will not pay any tax advance.

#### Transition to Local Taxation Assessed

92CH0517A Budapest FIGYELO in Hungarian  
9 Apr 92 p 23

[Article by Dr. Ivan Supala: "The Local Taxation Record: Slow Start, Faster Continuation"]

[Text] Local taxation is basically an unprecedented institution. Its share in the income of the self-governments is about 15 percent. Taxes are always a burden, but taxpayers are more likely to make a sacrifice for directly perceivable local goals.

#### Survivors

Although the law C. (HETI VILAGGAZDASAG [HVG]) of 1990 on local taxes took effect on 1 January 1991, only 304 of the 3,093 local self-governments had introduced local taxes by the end of last year. We are probably not far from the truth if we point to the following factors as the main reason for this phenomenon: the continuing existence of the so-called council taxes (residential building tax, tax for nonresidential buildings, tax on property lots, land tax for private persons), and taxlike liabilities (contributions to the development of roads and public utilities, fees for using and occupying property lots, tourists' tax).

Local self-governments were still able to count on income from these sources because the laws regulating them were only revoked effective 1 January 1992 by the law on local taxes. These earlier laws could have become invalid in the course of 1991 only if a self-government introduced local taxes.

Local taxation could not become generally valid in 1991, among other reasons, because the overburdened parliament was only able to pass the law on it fairly late, on 28 December 1990. In order to create regulations on local taxes, however, the local self-governments needed thorough preparation.

If we look beyond the numbers, we can note that although only about 10 percent of all local self-governments introduced local taxes in 1991, the effect of the system of local taxation now extends to more than 10 percent of the population of the country. That is to say that about one-third of the cities' self-governments made use of their right to determine taxes, among them the metropolitan self-government of Budapest, four of its districts (districts 14, 15, 19, and 22), and eight towns of county rank (Debrecen, Győr, Miskolc, Nyíregyháza, Pécs, Sopron, Tatabánya, and Veszprém). The local self-governments postulated about 14.5 billion forints in income from local taxes. There are no final data yet on the actual results. According to preliminary data, already half of the self-governments have made use of the possibility of local taxation this year. In itself, the law on local taxation, being only a framework, cannot oblige anyone to pay local taxes. It only enables the local self-governments to exercise the right to determine taxes within the bounds of the law. This right of self-governments has been argued before the Constitutional Court, which took sides with the right of the self-governments to determine taxes in its decision No. 67/1991 (XII.21) AB (see box).

The law contains all the safeguard regulations which are necessary in the interests of both the taxpayers and the self-governments. For example, it defines the population

of taxpayers as including private persons, legal entities, economic associations without legal personality, and personal associations of private persons without legal personality.

Among the above listed taxpayers, the specialized agricultural groups, budgetary organizations, social organizations, religious organizations, and charitable foundations are free of taxation if they had no income/profit tax obligations in the previous year. The taxpayer must declare this in writing to the tax authority. As of 1 January 1992 this law does not apply to the Hungarian National Bank, the State Development Institute, the Banking Center, and the organization of penal institutions under the auspices of the Ministry of Justice. That is to say, these institutions are exempt from local taxes.

#### Number of Self-Governments Levying Local Taxes

First Half of 1991	116
1991	304

#### 1991 Local Taxes by Self-Governments

	Tax Category	Million Forints
1	Building tax	120
2	Property lot tax	35
3	Communal tax of private persons	89
4	Communal tax of entrepreneurs	95
5	Tourists' tax, based on the length of stay	70
6	Tourists' tax, based on recreational building	46
7	Local industrial tax	132

#### No Dog Tax or Horse Tax

The law determines exactly what is assessable property, i.e., what the scope of the liability to taxation can be in the domain of the self-government: immovable property, or entitlement to immovable property; employment of manpower; tourist stays for nonresidents; carrying out economic activities within the scope of the law.

The tax categories are also defined in the law in connection with assessable property: building tax, property lot tax, communal tax of private persons, communal tax of entrepreneurs, tourist tax, and local industrial tax. Self-governments can introduce all these taxes or any one of them.

Thus, the self-governments do not have the possibility to introduce other taxes beyond the ones listed above (e.g., property lot value tax, property lot value appreciation tax, dog tax, horse tax, bicycle tax, etc.). A number of self-governments announced a desire to introduce a dog tax, and the capital intends to make a proposal for the

legal regulation of property lot value taxes and property lot value appreciation taxes.

Taxpayers are protected by the prohibition of multiple taxation, i.e., by the law stipulating that the self-governments can make the taxpayer liable for only one kind of tax on each assessable property.

The prohibition of multiple taxation only excludes the possibility of levying several kinds of tax on one assessable property item. It does not preclude self-governments from levying the following taxes on an entrepreneur locksmith (if he owns land in excess of what is necessary for the normal use of his workshop or what is customary in his locale): a building tax (based on his residence or workshop); a communal tax of private persons (based on his residence or workshop); a communal tax of entrepreneurs (based on his employees); a local industrial tax (based on the return from his sales). The responsibility of self-governments in the matter of taxation needs to be emphasized.

That regulation is not a mere empty declaration according to which each self-government determines the rate of taxes depending on local characteristics, the financial demands of the local self-government itself, and the ability of taxpayers to bear the burden of taxation—with an eye to the upper limits defined by the law.

#### Unalterable

Legal regulations stipulate that once a tax has been introduced, it can only be modified or revoked by a self-government effective the following year. Such regulations serve the purpose of planning for local taxation. This is one reason why it is important to thoroughly prepare the regulations on local taxation. Modifications are only possible in the course of the year if a modification of the law concerning local taxation must be applied to local regulations on taxation.

One must differentiate the above from a case in which a self-government would have passed a regulation in an unlawful way (e.g., when it determined a tax beyond the legal upper limit). A regulation which violates the law in this way must, of course, be modified, but the self-governments cannot use this modification to correct local regulations on taxation from the point of view of expediency. E.g., a budget deficit cannot be corrected by raising taxes in the middle of the year once they have already gone into effect; it can be corrected at the most by introducing new taxes. (In subsequent issues we will examine recent experiences with each of the individual tax categories.)

[Box, p 23]

#### The Constitutional Court on Local Taxation

The Constitutional Court dismissed applications contesting the right of self-governments to determine local taxes in its ruling no. 67/1991 (XII, 21) AB. According to

the court's position in the case, Article 8, paragraph 2 of the Constitution and the law concerning state finances and legislation stipulate the regulation of taxes and taxlike liabilities as subject exclusively to legislation.

However, legislative authority in the matter of local taxes stems not from these regulations, but from article 44/A, paragraph 1, point (d) of the Constitution. This decree of the Constitution regulates the right to determine the categories and rate of local taxes as a fundamental right of local self-governments.

Thus, the Constitution divided the right to determine taxes between parliament and the local self-governments. It entitles the local self-governments to levy taxes in order to secure funds to provide local public services.

The local self-governments are only authorized to exercise their right to local taxation within the scope of the law. On the basis of this regulation, the self-governments cannot exercise their legislative authority over local taxation in an arbitrary manner, but rather only within the confines of the law—in the scope, rate, and manner determined by the law.

Accordingly, the Constitutional Court pointed out that parliament did not transfer its own constitutional legislative power to the self-governments by passing law C of 1990, but rather carried out the constitutional authorization contained in article 44/A, paragraph 1, point (d) of the Constitution in passing the law on local taxation.

### Unemployment Fund Shortfall Projected

92CH0530B Budapest FIGYELO in Hungarian  
23 Apr 92 p 1

[Commentary by Z.M.: "What the Reserve Force Costs"]

[Text] We were told by sources close to the government that the Solidarity Fund could run a deficit as high as 30-40 billion forints by year's end, according to official estimates, and that the number of unemployed could come close to 700,000. The Economic Cabinet has discussed this forecast, and the issue has been presented to the government. The finance minister must have been aware of this matter when he announced that unemployment compensation would be paid irrespective of whether employee, employer, and state contributions covered these outlays.

These payments must be made of course, because the state cannot permit its citizens to starve to death even if they are unemployed. I do not envy the state and its representative, Mr. Kupa; he probably will have to submit a supplemental budget sooner or later. But I do not envy the enterprises and even ourselves, the working people, either, because the immeasurable costs of unemployment can be covered from none other than the budget, and from employer and employee contributions.

Momentarily the state conducts itself like the Baron Csekonics, but it is hardly going to be able to continue this gallant conduct for long. A further increase of 30-40 billion forints of the budget deficit would likely threaten the ability of the economy to function, if for none other but a newly spiraling inflation. Enterprises, all of which have already been skinned to the bare bones, and many of which have been indebted to their business partners even before, social security, APEH [State Revenue Authority], the customs service, and who knows who else would hardly be able to produce the needed contributions. Just as employees would not, employees, whose increasingly broadening groups slip below the existential minimum.

And as long as theoretically no one is able to pay, no other choice remains to managers of the Solidarity Fund than to collect without mercy the money it is owed, and this could result in the termination of additional workplaces. Alternatively, one could swallow the increased budget deficit, increase the payment obligations of enterprises and increase the contributions to be paid by employees. And from here on, everything starts over again. Perhaps even the finance minister's obligatory good disposition remains unchanged.

### State Helps Workers Buy Profit-Making Factory

92CH0532A Budapest NEPSZABADSAG in Hungarian  
10 Apr 92 p 8

[Article by Szilvia Hamor: "'The Factory Is Ours'—They Bought It for Themselves"]

[Text] "Now I will be Manfred Weisz," says the welder in blue overalls. And then, putting an end to the conversation, he leans over the metal he is about to melt. Incidentally, on that day I talked to many little Manfred Weisz's [prominent precommunist industrialist], because 2,700 workers at the GYGV [Factory and Machine Assembly Plant] have bought their own company and have become employees and owners at the same time.

The GYGV has altogether 3,500 employees. The company's return on sales amounted to 5.4 billion forints last year, and its profits reached 106 million forints. The company was appraised by auditors as worth 800 million forints. Of this value, 80.6 percent became the property of the workers in the following way: With the consent of the AVU [State Property Agency], 120 million forints were "converted" to employee property in the form of free property vouchers before the company's transformation; 106 million forints were paid for by the employees themselves, and 460 million forints were provided as a preferential low-interest privatization loan for 10 years.

"I know this is not the classic pattern of partial ownership by employees," explains Gyorgy Tabanyi, chief director of the company, exhibiting a certain routine in giving statements, "because in market economies it is frequently firms on the verge of ruin which are purchased by the employees in the hope of saving their



workplaces. On the other hand, the GYGV has been a profitable company from the beginning. Last year, the raises here were more than the minimum wage on the national average."

This is no small victory if we consider that assembling factories and machines is not one of the most sought after activities during a time of recession. They can attribute their tenacity to foreign orders, as I learned from the chief director, and to their ability to keep these foreign customers. One-third of the employees work abroad and they supply half of the return from sales. However, without the backdrop at home, without the well-trained "reservists" always ready to be mobilized, they would soon be driven out of foreign markets. This is the director's answer to the question why they do not retain only the profitable branch of their enterprise.

"The idea was brought up two years ago that we should buy the company ourselves," remembers Miklos Varro, secretary of the trade union committee. "The idea was partially presented by MDF [Hungarian Democratic Forum] experts, but Riverside, the American company which was asked to perform a thorough analysis of the company, gave us the same advice."

The secretary of the trade union is seemingly not worried yet about how the protection of employee interests can be correlated with strict utilitarianism. The work force of the unit located in the Csepel Paper Mill is not interested in the question either.

"In the 14 years I have been employed in this unit," says Aladar Probst, foreman, "25 other outside firms have undertaken building and assembling jobs in Csepel; now, only three are left. During the same period, the size of our unit decreased to 25. People no longer have great plans; they are happy to have a place to work, and in this way we may be able to keep our jobs."

"The GYGV was made into what it is by the work force," states Gabor Sikesdi, first mechanic. "This firm didn't belong to anyone, it was founded 40 years ago, and due to our work, it has become a company with a turnover of several billion forints. The company has never lost money and has never needed support from the state."

Gyula Meszaros, though he is one of the largest stockholders, fidgets on his chair in a rather embarrassed way. He started with the company almost 40 years ago. Since that time he has worked his way through half the country, as well as at sites in Germany and the Netherlands.

"At first we were scared when the chief construction engineer came and gave us a lecture on employee stocks and said that we would be buying the firm. You know, here in Csepel there are huge staff reductions everywhere, and we don't expect anything good to happen. But then we thought it would perhaps be better if it were us buying the firm and not a foreigner who would then fire us."

Gyula Meszaros was credited, as he put it, with 270,000 forints' worth of stock. This amount was arrived at using an index number for which the number of years spent with the firm carried the greatest weight (in order to become a stockholder, a person must have been employed by the firm for at least five years). The employee's position in the company was also taken into account. Thus, the lowest value of stocks held by any one employee is now 40,000 forints, and the highest is 300,000. To be exact, for the time being they are only owners in principle: The stocks will become freely disposable only after the loans have been paid back. The firm buys the stocks back from an employee for 60 percent of the face value if he leaves the firm before that time, and for 80 percent if he is laid off.

"In order to approve of the loan, the bank asked for a detailed plan of business until the year 2000," explains Mrs. Ferenc Sorosi, director of the finance department. "In this plan of business we also calculated that the profitability of the company allowed it to be sold to 82 percent. We also had to take the foreseeable inflation into account, since the interest rates are dependent on that. Considering all of these factors, we arrived at the conclusion that in the first year of payments after the grace period, when both the payments against the principal and the rate of inflation are expected to be the highest, we will have to pay 98 million forints. On the basis of these data we cannot say that the bank took on too great a risk in granting the loan."

Indeed not. Gyorgy Tabanyi, chief director, told me they let the banks compete for granting the loan, for the bank which granted the loan acquired the right to keep the GYGV's checking account. With a turnover of 10 billion forints yearly, that means a considerable amount in fees.

The financial risk is not too great for the employees either. Gyula Meszaros, for example, got on board with 87,000 forints cash, which was the exact amount of his yearly share in profits. He never saw the money; it was transferred directly into the endowment. Istvan Bartal's share amounts to 47,000 forints now, but if there were another opportunity, he is prepared to buy more stock.

"If we made a profit up to now, why wouldn't things stay the same?" he says confidently, and then after a moment of silence adds, "There will be the World's Fair, and sooner or later people will start building in this country."

As the result of nine years of work in foreign countries, he built a house in Monor, bought a car, and would be satisfied if...he did not see the line of people waiting every morning in front of City Hall to be registered for unemployment.

"Firms are closing down one by one. The Agricultural Machine Factory of Monor has just shut down for two weeks. And in factories bought by foreigners, the first point on the agenda is to lay off half the employees. Obviously it did not take much to motivate us to buy the factory ourselves."

"Now the factory is ours; we build it for ourselves," says Aladar Probst as a farewell with a touch of irony [reference to a communist slogan: the country is yours; you build it for yourself]. Whether it will be possible to solve the contradiction between preserving workplaces and increasing productivity is a question for the future. At any rate, the employees know that their jobs are secure for three years. This was one of the conditions the AVU imposed on the prospective buyers of the firm. For which only a single applicant came into question: the GYGV itself.

### **Briefing on Changes in Energy Management**

92CH0530D Budapest FIGYELO in Hungarian  
23 Apr 92 p 17

[Article by JUHOS: "Ministry of Industry and Commerce Briefing for Energy Managers: Zigzags"]

[Text] Not too long ago the Ministry of Industry and Commerce [IKM] held a briefing for industrial energy managers concerning the transformation of the Hungarian Electrical Works Trust [MVMT] and the National Crude Oil and Gas Industry Trust [OKGT], among other matters.

Both monopolies—MOL [Hungarian Oil] Corporation and the MVM [Hungarian Electrical Works] Corporation—have recently been transformed into stock corporations and corporations [as published]. The transformations are part of the economic system change. The MVMT's transformation is characterized by the termination and the full dismantling of management on the basis of a trust. "Every element" of the structure that was established in 1963 along the pattern of the French energy system, and has functioned for almost 30 years, is being dismantled.

It appears that engineers advocating the idea of "pouring new wine into the wine bag," and economists reared on Lenin's "aphorisms" have found common grounds in the course of transforming the Hungarian Electrical Works: They thoroughly transformed this branch of industry, which has operated with a huge "zig," but which had to be renewed nevertheless.

The new organization has yet to establish a record of its functioning; moreover, the new model is not even complete and is not yet functioning. No guarantees can be provided as to the long-term functioning and the efficiency of the system.

Nevertheless, the activities of the IKM, which operates with a new spirit, could serve as an assurance that a correcting "zag" would be made, one that would take into consideration the views of social organizations and would also provide some guarantees. The new structure of the reorganized OKGT (MOL Corporation) resembles national institutions of a similar profile in West Europe. "Continuity" characterizes the reorganization process that began in April 1991. Competitive vacancy announcements have been issued for the posts held by

the old leaders (35 positions). The old leaders formed an advisory team to assist with their experience in the adaptation of the new organization to market conditions.

Industry energy managers recommended to the governmental organization responsible for energy that the "two poles"—the producer and the consumer spheres—be treated as equals, because the new organizational "setups" of both monopolistic, production-oriented organizations continue to function as means to collect taxes on behalf of the state. Within the price structure of 98 octane gasoline the costs of production and distribution do not amount to as much as 20 forints, the remainder of the price represents taxes. Consumers have no opportunity [to influence gasoline prices] other than establishing an interest group. The recently established MESZ, the Alliance of Hungarian Energy Consumers, could hardly be called an interests group of all Hungarian consumers, because most leaders of MESZ are managers at the largest Hungarian enterprises.

Based on information received from the monopolistic producer organizations one can tell that in the chain that consists of the producer, the large consumer, the industrial consumer, and the citizen. The last link in the chain—the citizen—bears all the burden created by the transformation process. According to the government organization concerned with energy, this "transfer of the burden" is estimated to fade out within three to four years, depending on the then prevailing standard of living. The above system is the same as the mechanism that has already proved itself in West Europe. This mechanism also performs certain functions that do not yet exist in Hungary, such as the operation of energy advisory organizations on a nonprofit basis to encourage energy savings. For example, alongside the Italian government there functions a 5,500-member organization supported mainly by state funds; this organization continuously examines every element of the energy producer and energy consumer chain. A similar organization (JICA) is also operated by the Japanese Government; it audited the energy use of five large Hungarian industrial consumers last year.

Environmental protection requirements must also be observed relative to energy consumption. At present, World Bank loans and German coal credits are available to industrial energy managers for developmental purposes. Those who take advantage of these loans may count on paying a 20-to-25-percent interest; the German coal credits have a somewhat more favorable interest rate.

### **Need for Two-Thirds Vote on Media Law Viewed**

92CH0532B Budapest NEPSZABADSAG in Hungarian  
14 Apr 92 p 4

[Article by Jozsef Bartha Szabo: "Simple Majority or Two-Thirds Vote?"]

[Text] We announced in our Saturday issue that the government, on the third go, finished the draft of the media law and will submit it to parliament in the near future. We asked Zoltan Molnar, Justice Department expert, whether the media law is to be regarded as a law requiring a two-thirds vote, or can it be passed by a simple majority, or are there perhaps only parts of it which require a two-thirds vote?

"According to Article 61, paragraph (4) of the Constitution," the expert said, "a vote of two-thirds of the representatives present in parliament at the time is necessary to pass a law on the control over public television, radio, and the press agency; on the appointment of their directors; beyond this, on allowing for

commercial radio and television; and on imposing a news blackout on the news media. Thus, the Constitution determines exactly those parts of the draft of the law on radio and television for the ratification of which a two-thirds majority is necessary. In the unresolved question which might still arise of whether the ratification of the entire draft of the law requires a simple or a two-thirds majority, my view is that the House Committee of parliament or the Constitutional Committee is entitled to make a decision. In my opinion, after discussing numerous proposals for modification, as a result of a long, hard debate, parliament will ratify a draft of a law which will regulate the problems of Hungarian radio and television in a progressive way."

### Intellectuals Surveyed on State of Country

92EP0386A Warsaw *RZECZPOSPOLITA* in Polish  
24 Apr 92 p 3

[Article by Ewa K. Czackowska: "A Constructive Disappointment; Presidential Report on the State of the Nation: 'Poland and Poles, '92'"]

[Text] At the Presidential Chancellery the work on the report on the state of the nation, "Poland and Poles, '92," has been completed. That document was drafted on the basis of 100 questionnaires sent to eminent men and women of the world of science and culture who are esteemed within their communities and—this being essential—are not directly involved in politics. Answers to the three questions in the questionnaire, concerning the principal problems of this country, dangers, and ways of coping with them, were provided by nearly every respondent. And the respondents include: Andrzej Ajnenkiel, Julian Auleytnier, Marek Drozdowski, Magdalena Fikus, Antonina Kloskowska, Mirosława Marody, Winicjusz Narojek, Adam Podgorecki, the Rev. Janusz Pasierb, Ludwika Puzynina, Leszek Spalinski, Tomasz Strzembosz, Jan Szczepanski, Władysław Terlecki, Zbigniew Wojcik, Jerzy Zelnik, Janina Zakrzewska, Lena Kolarska-Bobinska, Jerzy Mikke, and Andrzej Rychard.

The report is nearly 300 pages long. The headings of the principal chapters are as follows: "After 30 Months: An Element of Diagnosis; What Should Be Our Aims? Short- and Long-Term Objectives," "Measures Promoting the Country's Restructuring: A Tentative Assessment Study." The appendix contains proposed programs for economic reforms.

The idea of the report came from the head of the Task Force for Political Services to the President, Undersecretary of State Andrzej Zakrzewski. Minister Zakrzewski, as a founding member in 1970 of the "Experience and the Future" seminar, had coauthored all its reports, including the "Report on the State of the Republic and Ways of Improving Its Health," which was published in the underground in 1979. The report prepared in 1992 was to be modeled on its 13-year-old predecessor. "Initially our working name for it was the Report on the State of the Nation," said Minister Andrzej Zakrzewski. "But when the comments received turned out to concern public awareness more than the state of the nation, we changed its title to 'Poland and Poles, '92.'"

### A Triangle Within Which the Reform Is Perishing

The conclusions ensuing from the comments of nearly 100 representatives of science and culture on the state of the nation were discussed by Minister Andrzej Zakrzewski:

"The coauthors of the assessment study of the questionnaires, Mrs. Wiesława Kozek and Mr. Kazimierz Fieske, inferred two general conclusions. They termed the first 'constructive disappointment.' This means that building a new social order proved to be more difficult than we

had expected when commencing the creation of the Third Republic. But this disappointment can be called constructive, because, first, in the opinion of academics, the public remains firm in its belief that the social and political changes underway are irreversible. Second, the general thought is oriented toward the future, toward a new shape of the state and the society. Lastly, the three month lesson we have been experiencing is instructive and indicates where we went wrong and what should be done.

"I must say that there is a second general conclusion, namely, that this report on the state of the nation is more pessimistic than its 1979 counterpart which sounded hopeful, whereas now the 1992 report, after 30 months [since the collapse of the communist regime], despite the achievements since then, the academics view more pessimistically the condition of the society.

"My third broad comment I term 'the Bermuda Triangle.' Within that widely known Triangle people have been dying, whereas within our Polish triangle whose apices are formed by the president, the parliament, and the government, the reform is dying. This issue is reflected in all the responses to the questionnaire."

### Everything Is Politics

The diagnosis presented by the respondents to our questionnaire indicates that the major economic decisions, including even those concerning the daily life of citizens, continue to be political in nature. The destabilization of political order is continuing, as is the fragmentation of the parliament [into numerous small political parties]. The functioning of the Administration on the basis of cronyism is growing, and the professionalism of administrative personnel is declining, and this leads to a decline in the morale of the administration, as reflected in corruption, abuses, and misuse of "pull." In principle, nearly all the respondents agreed that government institutions, which are supposed to serve the public, are becoming isolated from the public and from its real needs.

The Sejm, being torn by internal contradictions, is viewed as an institution incapable of promoting a stable government and dominated by personal disputes and demagogic political theater. Personal matters overshadow the country's actual problems.

A political class does not exist contrary to the contention of many people who consider themselves members of such a class. The political elite, which is becoming increasingly alienated from the society, is absorbed in infighting and enters into alliances and coalitions according to personal criteria and personal friends and animosities which are totally unrelated to social needs. People are completely fed up with this situation.

Despite all their criticism of democracy, such as it exists, and parliamentarianism, such as it exists, all the respondents stressed that there can be no abandonment of these

principles. No one is questioning the principles of democracy in the parliament.

### **Competent, Responsible, Moral**

The public expects of politicians competence, sensitivity to social problems, moral qualifications, patriotism, and a feeling of responsibility for the national interest. People are upset by the apportionment of key offices in the government according to partisan affiliations. Everyone has stressed that, while dissent is imperative, there is a limit to dissent when the supreme good, that of the national interest, is concerned.

The need to decommunize the machinery of state and law was mentioned by quite a few respondents. They refer chiefly to cliques of functionaries of the old system, as well as to the need to take back the material advantages gained in return for supporting communist rule. Quite a few responses—so many that I was astonished—deal with the decline in the work ethos, with loafing on the job. In this connection, civic education, the propagation of civic virtues and work ethic, as well as of elementary moral virtues, is becoming greatly needed.

Summing up, it can be stated that democratic, liberal, and patriotic rhetoric cannot substitute for an active program for and strategy of restructuring, a program that moreover should be based on compromise solutions.

### **A Strong State Should Also Mean Strong Executive Power**

Many respondents stressed the need to build a strong state, interpreted as one that is strong in social support.

A strong state also means a stronger executive. This can be accomplished in three ways: by strengthening Presidential powers, by granting broader powers to the government, or by strengthening the executive powers of the government and the president.

The first of these ways concerns not only the person of Lech Walesa as the president. The presidency is viewed by a substantial proportion of the respondents as an institution guarding Poland's supreme interests, an office with the highest political authority. Concerning the person of Lech Walesa, the academics expect him to reflect the feelings and mood of the average man. Many respondents pointed to the need to strengthen the intellectual base of the Belweder [the Polish White House], to get the president to rely on the opinions of experts rather than on that of politicians or partisan individuals. Some even contended that the president should form a kind of a [technocratic] shadow cabinet and promote technocratic rule. The general wellspring for the continuation of the Polish reforms should be the government, however it might be named—a government of national salvation, a nationalist government, or the technocratic government. The technocracy factor was greatly stressed by the respondents. They pointed out that experts are not being

sufficiently utilized to solve the nation's difficult problems, that the government should pay more attention to various advisory councils and expert recommendations.

They perceived the political system as completely unstable. According to them, the political parties should find better and stronger "roots" in the society. Similarly, the restructuring of the state and the society should not be based on any sole right political options. Nearly all the respondents mentioned the idea of forming a broad proreform coalition, on proposing four versions of such a coalition: center-right, Solidarity, social option (leftist, but not social-democratic, chiefly linked to Labor Solidarity), and the effectiveness option, that is, the pragmatic version.

All the respondents emphasized that, irrespective of its version, the coalition must attend to achieving a social base of support.

The report also devotes considerable space to the public and the economy. Minister Zakrzewski believes firmly that the president, who says that he is a practical man, shall draw the right conclusions from the report. At the Presidential Chancellery these materials are treated as instructive. Discussions with the participation of the respondents are expected. The final assessment will be made available to the press, and perhaps also to the parliament.

### **Further Reform of Local Government Indicated**

92EP0386B Warsaw *TYGODNIK SOLIDARNOSC*  
in Polish No 17, 24 Apr 92 p 10

[Interview with Andrzej Bentkowski, director of the Warsaw Center for Local Democracy, by Jerzy Klosinski; place and date not given: "How Much Is Up to Us?"]

[Text] [Klosinski] Two years have passed since the Sejm adopted the Law on Local Governments. For some time now the propagators of the idea of local self-rule, for example, Professor Regulski, have been saying that the reform of local governments is stagnating.

[Bentkowski] Of a certainty there is much truth to it. To this day, the problem of municipal ownership has not been solved.

The transfer of property to municipal ownership is experiencing considerable delays. At present gminas [townships, i.e., local governments] are settling on litigation as the way of gaining title to ownership. But the situation is worse in cases in which the legal status of property remains uncertain. This problem is particularly frequent in larger cities, where no known owners exist for 30-40 percent of property. Another obstacle is the continuing poor structure of our taxes. So long as more than 90 percent of the tax receipts continue to be collected for the central budget, and so long as this proportion is not altered in favor of the gminas, local government will continue to be weak. Then there is the third obstacle: The imprecise nature of the relationship between the



gmina board and the gmina council gives rise to many needless conflicts, with the gmina council too often availing itself of its power to recall the gmina board. The pertinent provisions of law should be more precise and rigorous.

[Klosinski] But whatever might be said of the mistakes made by the parliament or the government, the fact is that local governments have many powers of which they often fail to avail themselves. Within a gmina local government is fairly often perceived as rule by a group of individuals who had been active during the election period but later, after they took office, became as arrogant as their communist predecessors.

[Bentkowski] It is not enough for the councilmen to be provided with every instrument for genuine governance; they also inherited collapsing [communist] institutions, a hostile officialdom, and funding shortages. Personnel changes at the offices had to be limited to upper levels, yet the quality of performance of offices is decided by the entire workforce. Then also there is the rivalry for power between the general government administration and the local government administration. Only now it can be observed that these two administrations are trying to build bridges of cooperation. For example, recently in Siedlce voivodship a standing conference of public authorities, at which the gminas, wards, and the voivode sit together at one table and solve common problems, has been called into life.

Just as important and effective way of acting is the establishment of gmina associations, but this is not yet popular among gminas. Yet, what a gmina cannot cope with alone, it can accomplish by forming a broader association with other gminas. Such organizations also are a stimulus for foreign capital to invest in Poland.

[Klosinski] The accusation is often made that granting powers to gminas to engage in business activities has resulted in many instances of corruption and bribe taking, which of course means loss of public monies. That is why voices are being heard that the gminas should be deprived of these powers and their property should be reprivatized and privatized, while at the same time imposing suitably high taxes that would suffice for the needs of the gminas. How much truth is there to this?

[Bentkowski] The gmina as a public entity should have no powers to engage in profit making business activities, although it should be borne in mind that in another respect, willy-nilly, the gmina will always engage in business activities insofar as they concern the public domain: water systems, schools, transportation. Nowadays the gmina is more interested in the formation of companies than in promoting the growth of the private sector on its territory. Few gminas reason in terms of creating new jobs, with most gminas being rather interested in receipts to be derived from some or other project. At present it is the general government administration rather than the gmina administration that attends to promote the private sector, and that is so

because the central government has deprived local governments of some of their powers.

[Klosinski] In view of this, do there exist any pressure groups concerned with preserving the authenticity of local self-rule?

[Bentkowski] Until now I have been criticizing local government and it would be unfair of me to stop therewith. It must be admitted that, broadly speaking, local government in Poland has proved its worth. This is demonstrated for example by the fact that for 2,000 out of the 2,800 gminas in Poland the balance sheet for 1991 closed with a surplus, meaning that the gminas spent their funds effectively. It should also be borne in mind that, following the collapse of the state budget for education, many gminas subsidized with their own funds schools even before taking over their administration. This also applies to health service and other public domains.

[Klosinski] Has then a psychological turning point occurred in the central government's interpretation of the role of local government?

[Bentkowski] Yes, it can be said so. Both the local government lobby in the parliament and the Olszewski administration do appreciate the place of local government in the structure of the state. This is reflected, for example, in the Sejm's rejection of the proposal, contained in the budgetary report, for depriving gminas of revenues from treasury fees. But I also am aware of certain forces inimical to the growth of local government. I am referring to the still largely prevalent system of ministries of state, which is a basic danger to democracy in Poland.

[Klosinski] What solutions intended to strengthen local government are being proposed by the local government lobby in the parliament?

[Bentkowski] Several such solutions have been proposed, but they will not be translated into reality until the country's administrative structure is decided upon. Currently the idea of establishing autonomous powiats [counties] rather than regions has gained more supporters. As early as in mid-1991 the National Dietine of Local Governments passed a resolution pointing out that it is a more urgent need to establish a second level of local government rather than the region as a territorial administrative unit.

[Klosinski] Does this mean that the National Dietine opposed the idea of forming regions, which is supported by the Bielecki administration?

[Bentkowski] Various circles in this country advocate various concepts of local government that suit their parochial interests. For example, the Poznan region is trying to persuade the authorities that it should be economically and socially as well as culturally an autonomous region. That is why, in the absence of constitutional provisions, it is difficult to answer the question as

to what model of local government we are to follow. Comments by government representatives indicate that powiats will be introduced as territorial administrative units. But first, it has to be decided whether the powiat will have limited self rule (with the gmina to delegate representatives) or whether the powiat council will be chosen in direct, popular elections. The latter solution would enormously strengthen local governments, because then a larger administrative unit (the powiat) than a gmina could pursue a consistent policy toward its inhabitants. Then the gmina would retain its present powers, but it also would, of a certainty, take over the powers of the wards, which would be abolished. Such a solution would lighten the burden on the central government administration, and hence also on the central budget. The state's financial problems could be overcome at their foci of origin.

[Klosinski] But there remains the problem of stimulating social activism so that such a two-level [gmina and powiat] structure of local government would be based on specific actions.

[Bentkowski] Here, too much still remains to be done, principally in the educational system. The Polish educational system must decide what kind of civic education should be provided in school, so that the adolescent reaching adulthood would have to take an active part in national affairs. There must also arise a system—I emphasize: a system—for specialized training of politicians and local-level civil servants. That is because for the present we are dealing with amateurs, persons who often even manifest a great deal of goodwill and ingenuity but who nevertheless are amateurs.

#### **Popular Weekly Magazine WPROST Described** *92EP0403A Warsaw GLOB in Polish 16 Apr 92 p 2*

[Interview with Marek Krol, editor in chief of the weekly WPROST, by Mariusz Tchorzewski; place and date not given: "The Market Above All"]

[Text] [Tchorzewski] Just what is the WPROST phenomenon?

[Krol] Tuwim once said that he knew as much about poetry as a bird did about ornithology. I am stuck at the very center of editorial daily life. It is therefore difficult for me to be both surgeon and patient at one and the same time. I think that the two most important aspects are: a young group with unconventional thinking, and learning from western models. For us, these models include TIME, NEWSWEEK, L'EXPRESS, and DER SPIEGEL.

[Tchorzewski] There has been a lot of loud talk lately about the dispute over the Wiktor awards, which WPROST wrote about.

[Krol] I'm not an idealist. I've seen a good deal of life, but I think that, as Nalkowska said, there are certain limits that must not be exceeded, the limits of decency.

We had to react to this situation, where Tomasz Lis, a man who had not been part of any sort of arrangement or program, a man who had gotten where he did solely on the basis of his own work, did not receive the award, despite the fact that ten times as many TV viewers voted for him as for Wieslaw Walendziak, the person who received the prize. The same, after all, has been true of other "laureates." I want to add here that our editorial office was not guided by personal likes and dislikes. I have never met Lis, and two years ago we gave the Kiesiel Prize to Walendziak.

Most disturbing to me was the fact that in accepting the Wiktor, Krystyna Janda expressed the hope that this was really an award from the public.

I think the jury acted unfairly. The organizers clearly stated in the news releases to the press that the winner would be determined solely on the basis of TV viewers' votes. As a viewer, I feel cheated and shocked. It does not look as though anything has changed in some circles. People are full of talk about democracy, but everything is still determined by a revered group that knows best.

[Tchorzewski] Citing WPROST in "Letters on the Economy," TV chief Jan Purzycki said that editor Andrzej Bober exploited your publication's cryptopublicity and that there had been a private subtext to the matter. What do you have to say about that?

[Krol] That's absolute rubbish. Editor Bober and I had never met before. And if they're talking about cryptopublicity, if we are going to think the way Mr. Purzycki does, it will boil down to the absurd point where we will have to consider it a crime for anyone to quote any sort of text at all on TV.

[Tchorzewski] Janusz Zaorski, chairman of the radio committee, accused Bober of issuing false information, thereby indirectly accusing all of you of lying.

[Krol] We will surely respond in some fashion. For the moment we are waiting for the things to develop, because from what we have heard, Bober intends to take the TV officials to court for firing him illegally, so the matter will probably continue.

Let us note that in the letter justifying his decision, the chairman talks about Bober's disloyalty to TV, but, after all, TV merely reported on the Wiktor awards ceremony. It wasn't the official organizer of the event, so nobody can say anything about disloyalty.

[Tchorzewski] WPROST, considered to be the greatest phenomenon on the Polish press market, was awarded the Elephant '91 Media Prize. You also received a prize for the best press advertising. There's probably nothing left to achieve, is there?

[Krol] We are very pleased, of course, but, with all due respect to "The Elephant," the greatest prize for us is the fact that we don't have any problems with sales, and the number of copies we print is constantly increasing. I see a field for further development here.

What is important is what Ms. Malgorzata Niezabitowska said, that the jury considers WPROST to be an independent publication that does not represent the views of any political party.

[Tchorzewski] But there are certain groups like the Democratic Union or the Liberal Democratic Congress that you criticize far less.

[Krol] We must distinguish between two things.

I understand independence to mean that we are working for ourselves and nobody has any influence over the publication's point of view. On the other hand, I do not believe in entirely objective journalism. Every reporter has some sort of political views. I do not intend to hide the fact that our sympathies lie with the liberals' union, but this does not mean that we will not point out the errors of these groups too. Our political sympathies are rooted in our economic views and not the other way around.

I think that the path chosen by the Mazowiecki government and then by the Bielecki government is the best way for Poland, despite all its defects. This is the very reason we honored Balcerowicz with the title of "Man of the Year 1991."

[Tchorzewski] What is your reaction to the recent attacks the government and the president have been making on the press? Shouldn't there be some moderation in criticizing the country's authorities?

[Krol] I think that neither the leadership nor society would be well served, if the press were to institute any sort of "protection period" for the establishment. A politician has a public function and is subject to public scrutiny at every moment. If a politician doesn't like this, then there's nothing that person can do but change professions.

The problem is that the present team in power provides an enormous number of causes for criticism just about every day. When Prime Minister Olszewski says that there is no alternative to the present government and that whoever attacks it is not a patriot, or that a number of important moves should be undertaken and that the burden of getting out of the crisis should be shared equally, he is using populist slogans, old PRL [Polish People's Republic] schemes and frameworks.

[Tchorzewski] Doesn't the economy need time to adapt to world demands either?

[Krol] That makes no sense, despite attempts to eliminate the processes that Balcerowicz started in the economy. We know from experience that time given to the economy is time wasted. Results can be produced only by forcing companies to make an effort and to compete.

[Tchorzewski] Where do such views come from, in a man who was in the PZPR [Polish United Workers Party] for 11 years and even two years ago was a Central Committee secretary?

[Krol] I think that in most people's development, there is a the period of leftist revolt, and there's nothing surprising about this. The world doesn't care whether Mr. X was in some party or not. The important thing is how he does in the institution he's running. It's the market that should show how much somebody's worth.

As for the sphere of intellectual values, human freedom, I'm still in favor of what the left has to offer, but I haven't changed my economic views for at least five years, and I'm an advocate of liberalism and a market economy. These two issues can be successfully separated.

[Tchorzewski] WPROST is considered to be a publication for young entrepreneurs who don't have time for an in depth analysis of the sociopolitical situation. Your news is therefore short and simple, providing an overall view but a superficial one.

[Krol] I don't hide the fact we care most about this readership, the young middle class, because these people, who are assertive and are working on their own, will be the moving spirit behind future changes.

Of course, some texts are condensed, but despite this fact, certain Western reporters still think we are too wordy and didactic, like the Polish press in general.

#### **Eysymontt on Economic Policy, Budget, Savings**

92EP0398A Warsaw ZYCIE GOSPODARCZE  
in Polish No 16, 19 Apr 92 pp 1, 4

[Interview with Minister Jerzy Eysymontt, head of the Office of Central Planning, by Stanislaw Chelstowski and Marzena Kowalska; place and date not given: "Primum Non Nocere"]

[Text] [ZYCIE GOSPODARCZE] The government's economic program and budget are being assailed from both sides. From one side because, under the slogan of combatting the recession, the government is toying with inflation, and from the other side on the grounds that it is just words, that steps are not actually being taken to combat the recession and that the proexport and proinvestment policy being pursued for this purpose lacks sufficient support.

The "Assumptions of Socioeconomic Policy for 1992," which were drafted under your oversight, satisfied no one, and your arguments as presented in the Sejm failed to convince the deputies. Would the same fate await all eclectic solutions?

[Eysymontt] I would view it less in terms of purity of form and more in political terms. The "Assumptions" was a program intended to balance what is possible with what is necessary. On the one hand, the policy of the last two years would continue to be pursued, meaning a

policy oriented almost exclusively toward anti-inflation measures serving to curtail demand in every possible way.

The other extreme option is the assumption that the economy needs a major injection of money to revive it. The supporters of this concept view the question of the budget deficit as secondary. They would tolerate even a steep increase—as much as 200 trillion zlotys [Z]—in that deficit. They are inclined to view the printing of money as more a technical rather than an economic issue. However, reasoning of this kind presupposes that money will serve as a stimulus that will fairly soon (e.g., within a year) reverse the trend and trigger a transition from recession to growth. Such an assumption is unjustified, and the concept based on it is extremely dangerous.

I firmly believe that the danger of the return of extremely high inflation should not be trivialized. Such an inflation would nullify all the antirecession, and chiefly proinvestment, measures, because no rational person would then want to be an investor.

No responsible government can assume such a great risk, which in this country is compounded by the continuing weakness of mechanisms for automatic stabilization and by the uncertain situation abroad. Still, we tried to propose certain antirecession measures, although admittedly their extent is limited to what is possible. But it is more important to signal a change in the direction of economic policy than to apply a rapid anti-inflation cure (miracles do not exist), and it is the "Assumptions" that provides this signal, and only people who refuse to open their eyes are blind to that change.

Another question is bringing into order—I do not want to use the expression "the turnabout in"—the structural changes promoted by the government. I differ from—let us put it this way—declared liberals in that I do not believe that in the current domestic situation the market mechanisms will automatically result in sufficiently deep structural changes over a reasonable period of time. Thus, here, too, the government's role is enormous. That is why indicating the prospects as to the time, scope, and choice of the instruments used to promote these changes is necessary.

Yet another matter is a specific vision of the restructuring, not as viewed from the standpoint of giving preferences to some industries over others—a standpoint I do not espouse—but from the standpoint of the proexport preferences outlined in the "Assumptions." I believe that contact with the world market is the true and objective litmus test.

These are the most important elements of the change in economic policy compared with the recent past.

In a word, the "Assumptions" holds to a particular vision of action. Consider privatization as an example. It is necessary to identify the domains of unrestricted privatization which, under certain conditions, would require preserving an altered but still de facto form of the

state enterprise. Decisions of this kind must be harmonized with restructuring measures. Here lies, in my opinion, the fundamental change in the approach which this government and its economic ministries are trying to follow.

[ZYCIE GOSPODARCZE] Is not such a comprehensive approach to privatization and restructuring precisely the one that had been proposed by the previous Minister of Ownership Transformation, Janusz Lewandowski, and the then Minister of Industry Henryka Bochniarz? Suffice it to consider the concept of sector privatization. So in face of the realities continuation [of the previous government's policy] has proved to be more pragmatic, has not it?

[Eysymontt] I am averse to terms such as "continuation" or "turnabout." As known, the economy is a highly complicated mechanism. Major changes in economic policy may happen and sometimes even have to happen, but the past cannot be erased just like that. Thus, all those supposed "turning points" are mere political rhetoric. Even if in some respects I personally or as a member of the present government disagree with the economic policy of the two previous administrations [Mazowiecki's and Bielecki's], this does not mean that their accomplishments and the measures they adopted are to be thoroughly condemned. I have never said otherwise. Never.

[ZYCIE GOSPODARCZE] Unfortunately, exactly that was done by the government of which you are a member, when, in the first days after it took office, it started to badmouth the previous government. That was a big mistake from the standpoint of social psychology and elementary principles of social engineering.

[Eysymontt] I can speak only on my own behalf. I believe that in the last two years, many measures had been taken which produced and are continuing to produce results, and it would be stupid to revoke them. Let me say more: Some seeds that had then been planted will begin to bear fruit only now, let us hope. The main weakness of the two previous administrations was that they could not quite see the forest for the trees. That precisely is the omission we want to repair. Thus, the "Assumptions" was an attempt at an integral treatment of the economy, that being needed. We shall thus try and utilize all the fragmentary accomplishments of the previous administrations by combining them into a whole, not in order to manipulate and direct it but in order to perceive where we are going and the possible end results. Therein lies, I believe, the principal difference in the approach followed by this government.

[ZYCIE GOSPODARCZE] But it seems that Minister Andrzej Olechowski, when presenting during a budget debate—to be sure, in a largely abridged form—the five basic elements of the economic program, placed emphasis on somewhat other points than those emphasized by the framers of the "Assumptions."

[Eysymontt] Such shifts in emphasis are natural considering that "Assumptions" was to be an overall and long-range program. Soon now we shall present "Directions of Socioeconomic Policy Until 1994," a report containing a vision of the continuation of the measures initiated earlier or in 1992. Let us bear in mind, however, that the budget for this year is very specific. It is a budget formed in the presence of a mortal danger to public finance and so it must be chiefly focused on elements stabilizing the system. Only in this respect can shifts in emphasis be observed. But the common assumption remains the same, namely, that there will be zero growth this year, that is, recession will be halted, and that in the subsequent two years we shall enter upon the path of a very moderate growth, about 2 percent annually. Thereupon we shall broaden the range of antirecession measures.

[ZYCIE GOSPODARCZE] Hold for a moment: What is this zero growth business? Is this assumption realistic, and might not it be that the pessimistic forecast of a 5-percent decline [in GDP] proves too optimistic? What then about the budget and the 5-percent GDP deficit?

[Eysymontt] There are more such shipwreck reefs. Consider the verdict of the Constitutional Tribunal. If it is upheld by the Sejm, this means nullifying the entire construct.

But about that forecast, it is true that in this respect we have had bad experiences. Let us bear in mind, anyhow, that forecasts of this kind are bound to be very risky owing to the uncertainties involved. Still, in my opinion, there do exist some premises for that optimism.

I am in accord with the opinion of the experts and academics close to ex-Deputy Prime Minister Leszek Balcerowicz that some of the recession which occurred during 1990-91 was of a "cathartic," balancing nature. It can thus be assumed that this trend is already expiring. That is for one thing.

For another, it is a fact that the private sector has been growing rapidly in the last two years; this major structural change will persist and even deepen. It is also to be expected that the privatization of manufacturing (I stress, manufacturing, not trade, because in trade the effect has been so to speak, lightning-fast) in the last two years will only now begin to produce effects.

Still another matter: We believe, and we have reasons to believe, that this year we shall be partially able to overcome last year's collapse of trade with the former Soviet Union. This will be helped by marketing the thus "released" output elsewhere, as well as by regaining "bridgeheads," to use a military term, on the other side of the Bug river. True, we are succeeding in doing so by using the primitive form of exchange represented by barter transactions, but from the standpoint of holding on to a market this is of major importance. Furthermore, let us bear in mind the growth of housing....

[ZYCIE GOSPODARCZE] Which in a market economy signals an uptrend; let us hope that in this country too this signals it.

[Eysymontt] I am not claiming that our forecast is completely likely, but nowadays no hypothesis is certain.

[ZYCIE GOSPODARCZE] Why is it then that, despite the far from best experiences of the last two years, the budget was based on this forecast?

[Eysymontt] Because basing it on anything else would at once nullify all possibilities for positive action. I am not claiming that certain safeguards should not be taken, but that is not easy. I simply cannot see where any hidden reserves can be found. I believe that, despite the apprehensions such as the one you expressed, adopting the zero-growth hypothesis was warranted and as of the present we have no reasons to believe that it is not realistic.

[ZYCIE GOSPODARCZE] Let us hope so, for our own sake.

[Eysymontt] Still, let us not delude ourselves. Even then things will be difficult!

[ZYCIE GOSPODARCZE] Let us face the truth. If this hypothesis is to come true then, considering the results of the first few months of 1992, output must increase during the remainder of the year.

[Eysymontt] Of course, a relative growth compared with the previous year. But let us bear in mind one other important factor: debt relief for enterprises. This measure may bear fruit in the form of increased operating profits and, as a consequence, increase budgetary receipts.

[ZYCIE GOSPODARCZE] But considerable caution is warranted in view of the time needed for the debt relief negotiations and the patience needed to wait for the effects of the recovery programs. The effects will probably not show up this year and, to put it plainly, for the present, we should be prepared to bear the cost of the first stage of this operation.

[Eysymontt] Perhaps. However, it is the bottom line that counts. In a situation of uncertainty, we have to select the solution which appears to increase the likelihood of a balance sheet surplus. Of course, one could say that nothing can be done and one has to wait. But I am totally opposed to this philosophy. Action is needed. It is much easier to do nothing and prophesy gloom and doom. But it is the bounden duty of any government to explore solutions which magnify chances of success, and this is the purpose of our proposals.

[ZYCIE GOSPODARCZE] About the "Assumptions": They forecast a conservative budget, but in too generalized a manner. As known, slogans of social protection, etc., cannot be applied to this year's budget. It may be that this difficult financial situation will finally force institutional changes in the health service, education, the



social safety net, etc., but these changes will begin to bear fruit only in future years. This year they are not to be expected. How then can the public be persuaded to accept austerity measures in the name of structural changes? For the present, politicians are hardly anxious to adopt the drastic decisions needed, and this besides is the reason why to this day the structure of budgetary spending still remains tailored to the previous [communist] model even though the economy is now closer to a market one.

[Eysymontt] That is certainly one of the most difficult dilemmas. We must finally be dispassionate if we are to attain a market economy, a competitive and efficient economy, because maintaining the current level of social protection, and especially the traditional level of its funding, is simply impossible; it simply is an organic contradiction.

Unfortunately, since 1990—I am not going to explore the root causes here—in practice no measures have been taken in the direction of that painful but needed restructuring. There is simply no alternative to telling our nation, destitute as it already is, that a gradual transition to more extensive financing of social protection from private incomes is needed. Unless we succeed in this goal, in the next two years the state's financial system will be totally wrecked.

[ZYCIE GOSPODARCZE] Even now voices are heard that in a situation of budget slashes it is immoral to raise government salaries at a time when pensioners, annuitants, and employees of budget institutions are condemned to growing pauperization.

[Eysymontt] My impression is that those who say so are incompletely familiar with the statistics. Let me at once make the reservation that, of course, the span in incomes and wealth is wide (as I know myself from personal experience). Nevertheless, all studies by both government agencies and research institutions indicate that it is precisely the pensioners and annuitants who receive the most protection in what is after all a very difficult situation. It is precisely they who, realistically speaking, have had the least to lose. I believe that the real problem is not they but large families that are most needy. This should be said clearly for truth's sake, and this is where solutions should be explored.

[ZYCIE GOSPODARCZE] Still, whatever the statistics might say, when salary increases for what is after all an unpopular administration are proposed, cries of outrage are heard.

[Eysymontt] Yes, we are aware of this. But when somebody says that it is dishonest and immoral of us to propose substantial salary increases as of this coming May, let me answer, "It is honest and moral." We cannot expect highly qualified personnel to work for miserable pay. Otherwise we would be employing mediocrities, not for political reasons as in the past, but for economic

reasons. Yet we as a society, including the administration, face problems of a major institutional transformation, of integration with Europe. Poorly paid government officials would botch it. Thus, this also is a kind of investment in the future.

I am convinced that, despite the extremely difficult situation with social protection, which entails fairly drastic restrictions, protecting the core of the government as an organizational structure is an absolute necessity. Otherwise, should this deterioration continue, soon now there will not be a Polish state anymore. The society will not be able to function normally, and it will lose the elementary feeling of security.

[ZYCIE GOSPODARCZE] Equally unpopular decisions, though in an opposite direction, will also concern, e.g., education.

[Eysymontt] I firmly believe that the existing required curriculum is ridiculous: The number of hours spent in school should be increased (at least to the level of West European countries) in return for raising the salaries of teachers. This precisely is what we are looking into. Another problem is the private schools. Funding could be shifted so as to ensure broader access to these schools; this would relieve state schools and at the same time serve to utilize budget subsidies more effectively.

These are not new ideas, but, let me emphasize once more, the present government is taking an integral approach to them and trying to initiate major institutional changes. The educational system is an example showing that this can be accomplished efficiently without spreading out the entire process over many years.

[ZYCIE GOSPODARCZE] Indeed, in the case of education it is easier than in the case of social protection. Yet "Assumptions" treats this issue rather superficially, focusing on how to create budgetary receipts rather than on institutional changes, including privatization. For example, the program for mass privatization opened up the possibility of establishing financial institutions that would form the infrastructure for social security, pension funds, etc. Yet the continuing debate and the practically hysterical antiprivatization campaigns place further privatization under a question mark.

[Eysymontt] Again let us disregard political campaigns and focus on the merits of the case. In the most recent version of "Directions of Socioeconomic Growth Until 1994," which shall soon see the light of the day, a chapter on the general macroeconomic assumptions is immediately followed by a section dealing with ownership transformations. The "Directions" treats privatization issues more broadly and at the same time more specifically than did the "Assumptions." It also contains a passage on mass privatization and on the possibilities for utilizing it as a source of funding capital for institutional changes in the domain of social security and insurance.

The new proposals on privatization presented by the Presidential Chancellery complement at least partly these earlier proposals. My impression is that a kind of nonpartisan lobby is being formed to promote combining the process of privatization with far-reaching changes in social services. Please note that a similar opinion on this question is held by both the former Minister of Labor Michal Boni, of the Liberal Democratic Congress party, and the current Minister Jerzy Kropiwnicki, of the Christian National Union, as well as by myself, a member of the Center Accord party. There exist various technical proposals, to be sure, but I strongly believe that this is precisely the area in which institutional changes will be initiated soon. But let us bear in mind that "Assumptions" and "Directions" outline a general model of solution in different time frames. As for the burden of passing the requisite laws, it rests on the parliament.

[ZYCIE GOSPODARCZE] But it seems that much will depend on the activities of the triumvirate constituted by yourself as the head of the Central Planning Office, Minister Andrzej Olechowski, and the chairperson of the National Bank of Poland, Mrs. Hanna Gronkiewicz-Waltz. At any rate, that is the trio on whom are focused the eyes of all those concerned with the economy. How do you view the possibilities for effective cooperation among this trio, especially should it happen that the government is voted special powers?

[Eysymontt] Within the structure of the state I perceive three main centers programming economic decisions. The first is the Ministry of Finance, whose approach is dictated by the needs and possibilities of the budget; the second, the central bank, that is, the institution responsible for the money supply; and the third should be the new Ministry of the Economy, which would represent chiefly a strategic vision of the growth of the state and the economy and specify certain priorities. Yes, yes, priorities, I am uttering this no-no word, even though it may bring bad associations. If the state is to pursue an economic policy, it must have priorities.

The reconciliation of these three different viewpoints when resolving inevitable disputes should be coherent and consonant with the modern, efficient democratic order. We must work out such a model in order to avoid the mistakes which, admittedly, were made in the last two years.

At the same time, I sense that your question is somehow personal. Well, the press has made a surprising ado over my, e.g., having voted against the nomination of Mrs. Hanna Gronkiewicz-Waltz to the post of chairperson of the NBP [Polish National Bank]. Sure, I voted against, but that was because I had my own candidate, Leszek Balcerowicz. That was the only reason. At any rate, that was not on my part meant as a vote of no confidence in Mrs. Waltz. So far as I am concerned, this should have no effect whatsoever on my future cooperation with her. The decision was adopted democratically and is a fact,

and it is my duty to cooperate with the head of the central bank. So far there have not been any differences between us.

As regards Minister Olechowski, here, too, in view of the political games underway, attempts are being made to portray us as taking opposite sides. I do not know what will happen next. Mr. Olechowski is the minister of finance today, but tomorrow he may hold another office. I do not know how long I myself will hold my office, but let me state plainly that so far there have not been any problems whatsoever in my cooperation with him. More even, Minister Olechowski has repeatedly been consulting me on budget planning, and even as regards his Sejm speech we did not differ substantively. Thus I see no personal problems.

[ZYCIE GOSPODARCZE] Broadly speaking, in this context how do you see the future of your Central Planning Office, an institution whose very name clashes with the spirit of the times, even though it is valued for its forecasts and assessments of the economic situation?

[Eysymontt] Indeed, the name is unfortunate, but that is not what matters most. I was and am a supporter of the establishment of the Ministry of the Economy. It should include, e.g., a department for contacts with the nonstate sector with the object of information exchange, and also in order that it may, in an informal manner, pass on suggestions from the government as to directions of policy while at the same time gathering information on the obstacles encountered by businessmen and on their opinions concerning laws that should be revised or modified, the suitability of government measures, etc.

Another issue is our integration with the EC. We have to get ready for this operation. I imagine that such a ministry should contain a strong and important department that would attend to exactly problems of this kind. It would concentrate on monitoring the processes of adaptation [to EC laws and regulations] and coordinating the related programs, thus relieving the Ministry of Foreign Affairs of duties of this kind.

[ZYCIE GOSPODARCZE] Many of these functions are at present fulfilled by agencies and local governments. In view of this, do not the prospects you outline point to the government's desire to exert greater influence on the economy?

[Eysymontt] Let me repeat what I stated previously. Unlike, let me put it this way, hardline liberals, I do not believe that some self-regulating market mechanism alone would force structural changes in the not distant future. And let me remind you that we simply do not have the time to wait for them. Thus, the state must play an active role here. But we should distinguish between an activist role of the state and state control of the economy.

[ZYCIE GOSPODARCZE] But is the government capable of steering the economy without turning it, by force of inertia, into a command economy?

[Eysymontt] That exactly is why we need highly qualified experts whom we must either hold on to or attract by offering them worthy salaries. That also was, among other things, my purpose when spoke about the anticipated increases in government salaries this coming May.

The fact that I am at present the head of the Central Planning Office (CUP) does not mean that the proposed Ministry of the Economy will be a CUP under a different plaque. No such thing. Clearly, the CUP will cease to exist in its present form, but whatever is of value and represents authentic accomplishments of this agency cannot be forfeited. This also applies to its personnel, because I strongly believe that this office (and not it alone) employs many highly qualified and valuable individuals who identify themselves with the interests of the new state. They desire to serve this state. Of a certainty, we must change a lot, but above all we should guide ourselves by the principle of "primum non nocere."

[ZYCIE GOSPODARCZE] Thank you for the interview.

#### **Restrictions on Land Sales Sought**

92EP0388B Warsaw *RZECZPOSPOLITA (ECONOMY AND LAW supplement)* in Polish 24 Apr 92 p II

[Article by Edmund Szot: "The Law on the State Treasury's Properties Has Already Lost Its Attraction"]

[Text] The law on management of the State Treasury's farm properties is barely half a year old, whereas it has already lost its attraction for some members of the Sejm Commission of Agriculture and Animal Husbandry. A group of 19 deputies made a proposal to amend it, the essence of which is to assure priority in the purchase of these properties to farmers from a given gmina, while the gmina itself would have to select them.

Adam Tanski, the president of the State Treasury's Agency of Farm Property, explained in vain the groundlessness of these types of changes, which one of the deputies described even as causing corruption (according to the law presently in effect, the land is sold through auction), also, Deputy Pilarczyk's motion to dismiss the parliamentary plan did not pass. The other option of Deputy Mieczyslaw Pawlak won. The latter asserted: "I will not allow the feeder land to become a manipulation." In the opinion of this deputy, "political manipulations of the higher in rank" have caused "the Polish land to become useless."

Thus, the parliamentary plan was sent back only to be elaborated anew in the spirit of facilitating the state farms' principles for individual farmers, and of implementing a second, so to speak, agricultural reform. The arguments of President Tanski, that the proposed solutions practically prevent the Agency of Farm Property from realizing its responsible tasks (including the management of a sufficient number of centers for the creation of jobs for people losing theirs at the state farms) were disregarded by the majority of the deputies. Admittedly, only a few representatives of the Legislative Committee participated in this joint session of the latter and the Commission of Agriculture and Animal Husbandry, but it is evident from the course of the session that their voice counts for less, since a so-called quorum is not required for voting.

It is still not known which form the parliamentary plan of law will finally take, however, it is no less possible to foresee that its current terms will rather not be amended. However, it will reflect our skill at entangling simple matters, introduce an element of appreciation to concise economic criteria, and, perhaps, will reflect our still Polish xenophobia, expressing aversion toward foreigners who want to rent, and still, God forbid, buy patches of our ancient, nurturing mother earth.

**Poll Results on Presidency, Timing of Elections**

92BA0926A Bucharest *TINERETUL LIBER*  
in Romanian 12 May 92 pp 1, 3

[Text] On 10-17 April 1992, the Independent Center for Social Studies and Opinion Polls carried out a poll on a representative national sample of 1,167 persons over 18 years of age residing in 30 rural and 29 urban localities and in the municipality of Bucharest.

The results of the poll were the following:

I. Following the clashes in the Dniester region, the president of the Republic of Moldova, Mircea Snegur, decreed a state of emergency. From what you have learned, do you think that the Republic of Moldova should:

1. Use force to repel these attacks—12 percent
2. Continue its efforts to settle the dispute by political means—81 percent
3. Don't know—6 percent.

II. Who do you think are most of the members of the attacking groups:

1. Russians brought in after World War II, who want to establish their own republic in the Dniester region—44 percent
2. Cossacks who came with weapons from other areas in order to help establish such a republic—42 percent
3. Moldovans who do not agree with Snegur's policies—4 percent
4. Don't know—10 percent.

III. Who do you think stands behind the attackers?

1. Russia—33 percent
2. Ukraine—4 percent
3. The former USSR army—20 percent
4. The former USSR Communist Party—32 percent
5. Don't know—11 percent.

IV. In the present circumstances, on which of the following objectives should the Moldovan leaders primarily focus their efforts:

1. Immediate unification with Romania—30 percent
2. Strengthening the independence of the Republic of Moldova—63 percent
3. Don't know—7 percent.

V. Compared to Bessarabia, which was annexed in 1940, the Republic of Moldova also has the Dniester Region,

but does not have southern Bessarabia, which was joined to Ukraine. What should be the first care of Moldova's leaders:

1. To preserve their present territory, including the Dniester Region—27 percent
2. To preserve their present territory and endeavor to regain southern Bessarabia—28 percent
3. To be content with the territory of Bessarabia as it was in 1940, meaning without the Dniester region—41 percent
4. Don't know—4 percent.

VI. What should Romania do in the present situation?

1. Proclaim the immediate unification of Moldova and Romania—17 percent
2. Give Moldova military assistance in troops and weapons—4 percent
3. Give Moldova military assistance only in weapons—10 percent
4. Give Moldova any non-military assistance—47 percent
5. Not interfere—20 percent
6. Don't know—2 percent.

VII. Which of the two presidents do you trust?

1. Mircea Snegur—7 percent
2. Ion Iliescu—19 percent
3. Both the same—31 percent
4. Neither—36 percent
5. Don't know—7 percent.

VIII. The FSN [National Salvation Front] held its national convention at the end of March. Did you follow its proceedings?

1. Very closely—8 percent
2. Closely—16 percent
3. Not much—47 percent
4. Not at all—28 percent.

IX. After the closing of that convention, your faith in the FSN has:

1. Increased—7 percent
2. Dropped—42 percent
3. Remained unchanged—44 percent
4. Don't know—7 percent.

X. Some of the Convention delegates accused the supporters of Mr. Petre Roman of having wrongly organized the proceedings, especially the vote. Do you tend to believe or to disbelieve those accusations?

1. Tend to believe—31 percent
2. Tend to disbelieve—37 percent
3. Don't know—32 percent.

XI. On 30 March several important FSN members decided to leave the party and establish a new one, named FSN—22 December. Do you think that for strengthening democracy in Romania, the Front splitting into two parties is:

1. Useful—19 percent
2. Harmful—43 percent
3. Does not matter—27 percent
4. Don't know—11 percent.

XII. Speaking of the elections, would you prefer the future president to be:

1. A politician—52 percent
2. Some personality outside politics—34 percent
3. A military man—6 percent
4. Don't know—7 percent.

XIII. If the following personalities candidated for the presidency, for whom would you vote?

1. Liviu Ciulei, stage director—1 percent
2. Andrei Plesu, writer—4 percent
3. Patriarch Teoctist—3 percent
4. Miron Cosma—1 percent
5. Lia Manoliu, former Olympic champion—0.4 percent
6. Theodor Stolojan—34 percent
7. Ana Blandiana, poet—2 percent
8. Victor Rebengiuc, actor—2 percent
9. Professor C. Cojocaru, economist—5 percent
10. Alexandru Paleologu, writer—3 percent
11. Ion Tiriac, businessman—26 percent
12. M. Draganescu, president of the Academy—5 percent.

XIV. After the next parliamentary elections, would you like Mr. P. Roman to become prime minister again?

1. Yes—18 percent
2. No—59 percent

3. Don't care—18 percent

4. Don't know—4 percent.

XV. When do you think the parliamentary elections should be organized?

1. May—36.5 percent
2. June—46 percent
3. July—9 percent
4. August—4 percent
5. September—2 percent
6. October—2 percent.

XVI. If the parliamentary elections were held next week, would you go out to vote?

1. Yes—74 percent
2. No—14 percent
3. Don't know—8 percent.

#### More Positions for Ministry of Interior

92P20273A

[Editorial Report] Bucharest MONITORUL OFICIAL in Romanian on 3 April on page 1 reports that the following colonels in the Ministry of Interior have been promoted to the rank of major general: Dumitru Tudor Cearapin, Nicolae Niculae Nitu, and Ioan Costica Voicu. Presidential Decree No. 38, published in MONITORUL OFICIAL of 9 March 1992, page 1, reports that Ministry of Interior Lt. Gen. Neculai Dumitru Penciu "has been retired directly, by the application of Article 46, letter a) of the Statute of the Officer Corps, in view of his pensioning." On 21 April, MONITORUL OFICIAL reports, on page 2, that Lt Gen Penciu is "retired directly as of 9 March 1992" and that "Decree No. 38/1992 is amended accordingly."

MONITORUL OFICIAL on 30 March on page 12 publishes a 9 January government decision signed by Prime Minister Theodor Stolojan and countersigned by Minister of Interior Victor Babiuc and Governor of the National Bank of Romania Mugur Isaescu announcing that the number of positions in the police force of the Ministry of Interior will be increased by 100 NCO's "to guard and ensure the security of the assets handled by the National Bank of Romania." According to the decision, the National Bank will pay for the wages and support of these NCO's.

MONITORUL OFICIAL on 23 December on page 1 publishes a government decision signed by Prime Minister Stolojan reporting that the peacetime forces of the Ministry of Interior will be supplemented by 1,040 positions needed for organizing the National System for Computerizing Population Records. According to the decision, the funds for this activity in 1992 will be



included in the total volume of expenditures which will be approved for the Ministry of Interior in the budget of the central state administration.

MONITORUL OFICIAL on 24 April on pages 1 and 2 publishes Government Decision No. 431 of 25 April 1990, signed by former Prime Minister Petre Roman, on the establishment of the Higher Military School for Officers of the Ministry of the Interior, for training "active officers for the Ministry of Interior." The same issue of the publication contains, on page 11, a 10 May 1990 decision, also signed by Petre Roman, on new uniforms for Ministry of Interior military cadres.

### Personnel Changes in Intelligence Services

92P20275A

[Editorial Report] Bucharest MONITORUL OFICIAL in Romanian on 3 April on page 2 reports that Maj. Gen. Constantin Ilie Dragoi of the Romanian Intelligence Service [SRI] has been transferred to the reserves, in accordance with Article 43, letter a), of the Statute of the Officers Corps.

MONITORUL OFICIAL on 22 April on page 2 publishes Presidential Decree No. 78 announcing that, as of 9 April, Lt. Gen. Nicolae Mihail Caraman has been relieved of his position as director of the Foreign Intelligence Service [SIE], at his request, in view of his retirement, and that Maj. Gen. Ioan Talpes has been appointed SIE director, with the rank of minister. Also on page 2, the same issue of MONITORUL OFICIAL publishes Decree No. 79 reporting that Lt. Gen. Nicolae Mihail Caraman has been promoted to the rank of colonel general and transferred to the reserves.

MONITORUL OFICIAL on 22 January on page 4 reports that the following colonels in the Foreign Intelligence Service were promoted to major general, effective 13 January: Tudor Constantin Silinescu and Mihail Alexandru Tanasescu.

### Stanculescu on Possible Run for Presidency

92BA0927A Bucharest LIBERTATEA in Romanian  
11/12 May 92 pp 1, 3

[Interview with General Victor Stanculescu by Octavian Andronic; place and date not given: "The Candidates Must Represent Well-Organized Political Forces and Must Be Free of Any Shadow From the Past"]

[Text] A press communique received on Saturday at the newspaper informed us laconically: "A spokesman who wishes to remain anonymous reports that Army General (R) Victor Atanasie Stanculescu will enter his candidacy in the coming election for the presidency of the republic."

Yesterday I contacted Gen. Stanculescu in order to get more details. I found him at home in Helesteului Street, by himself, without any visitors, although I knew that it was his birthday.

[Andronic] Congratulations, General, and may you get to higher places!

[Stanculescu] Meaning?

[Andronic] Meaning, to...Cotroceni!

[Stanculescu] Aha, that is what it is all about. Yesterday I, too, received a letter from the war veterans of the Ilfov branch of the National Association, signed by Major General (R) Radu Capeti, in which I was asked to enter the coming elections. I expressed thanks for the honor of such a proposal, but I want to mention that I am still a man who sticks by his views and does not change them from one day to the next. Which does not mean that I soon forgot such a proposal, conveyed on the occasion of my birthday anniversary....

[Andronic] Does it mean that you are still thinking about it?

[Stanculescu] Personally, I believe that in all the posts I was given after the revolution I endeavored to fulfill the ideals of this period, but I think that in the current political context those who will candidate must represent well organized political parties and be free of any shadow from the past hanging over their heads, and without any suspicion concerning their personal life. When I say that I do not think of myself as being handicapped from this viewpoint in relation to other possible candidates. I feel compelled to thank those who had that idea and to recommend that they vote for the candidate whom they view as the most capable of mending Romania at a very difficult time both for the country and for Europe in general.

[Andronic] Nevertheless, at our last meeting you did not rule out the possibility of returning to the forefront of the political life....

[Stanculescu] I stand by the idea I stressed at our previous talk that, should it be viewed as necessary, it is possible that I may engage in some economic area, in particular, and possibly even in politics, because I still wish to see the country occupy its real place among the nations of the free world.

[Andronic] Recent events make me feel that the time has come for you to comment on one episode that at the time you refused to discuss: Your visit in 1990 to Versoix, Switzerland, and your meeting with the former sovereign...

[Stanculescu] I paid that visit and I had the meeting you mentioned because it seemed abnormal to me that after the revolution we should not have a comprehensive view of our history and learn the views of all those connected to this country's past. Consequently, I thought that that was a natural action and one that demonstrated that we had completely changed the way of thinking to which we had been doomed by a certain kind of history, and that we should seek to know each other, all those who wanted to participate in rebuilding the country and the society.

[Andronic] What did you learn from your interlocutor at that time?

[Stanculescu] That the revolution focused all his attention on his desire to be of service to his country, in spite of the fact that at the time he could not offer a concrete solution along that line.

[Andronic] When you came back, why did you embrace the "no comment" formula?

[Stanculescu] I thought that any commentary was premature at a time when the curtain of Romania's counterfeited history had not yet been lifted and when many people still did not understand the fact that Romanians everywhere must keep in contact and work together for the good of their country.

### Discussion of Hungarian 'Irredentist' Methods

92BA0866A Bucharest *DIMINEATA* in Romanian  
11-12, 14 Apr 92

[Article in two installments by Ion Vasilescu: "The Irredentism Syndrome on Dangerous Ground Once More"]

[11-12 Apr p 6]

[Text] Recently, an increasing number of mass media sources have pointed out not only the precariousness of, but also a certain lack of, perspective about the truly constructive relations between Hungary and Romania. Unfortunately, this situation is not only a matter of appearances, but is confirmed by the official representatives of the two countries; we need only consider the recent declarations of Lajos Fur, Hungarian minister of defense, and of Adrian Nastase, Romanian minister of foreign affairs. There is no question that this is in fact where matters stand, and I therefore find no need to present further arguments in that respect. Consequently, given that the facts are acknowledged by both parties, it would be logical to act responsibly to remove the more or less important conflicts and to promote relations based on principles of good understanding in the interest of the two countries. It is not necessary to mention that as far as it is concerned, Romania has given proof of its constructive intentions on numberless occasions. On the other hand, Hungary's attitude seems at least interesting (but not also accidental), notable as it is for an undisguised predisposition to develop and hone as strongly as possible its relations with certain East European countries and with Romania in particular. Its concern for obstructing initiatives and actions aimed at peace and stability in this portion of Europe become increasingly transparent and convincing. Its lack of receptivity toward constructive proposals, the nature of its ostentatious as well as aggressive position in its relations with its neighbors is alarming and demands reflection. The insolent expression of a retaliatory, nationalist-chauvinistic, and irredentist viewpoint, the generalization of Pan-Hungarianism, the distortion of historical truth, the tendency to manipulate public opinion, and so on, bring

into the present time older, well known practices that were part of the scenarios which preceded the Vienna dictate of August 1940. Despite these, part of the Romanian public opinion is not fully convinced by the possibility of repeated scenarios such as those. This is the only explanation for the reserved attitude, the deferral, and the lack of decisive reaction on the part of some political parties. I do not believe that the Romanian people has forgotten the 1940 tragedy, and that it will accept this evasive political-diplomatic behavior that led to the country's dismemberment through the Vienna dictate. It is appropriate to recall here the truths of the historian Gheorghe Bratianu, who in 1942, referring to the negative effects of Romania's uninvolved with the irredentist propaganda, said: "How many of the problems that have formed our 1940 calvary would have acquired a different appearance if a timely geopolitical presentation of their importance could have awakened public opinion in Romania and other countries.... Faced with this (revisionist) attitude, impressed as a total and totalitarian directive upon a whole country, we were able to oppose it with only indifference and inertia, whose effects we later could not dispel after publications and proofs. We thus saw a truly monstrous spectacle: a just cause based on ethnic, geographic, and historical foundations, lost solely because of the lack of serious preparation for defense, with the opponents prevailing thanks to the skill and hard work of the (revisionist) advocates ready to plead with their trumped-up briefs before the bar of all courts and all judges in the world."

I don't believe that today's Romanian authorities will repeat the mistake made by the leaders of the period between the two world wars, complacently estimating that the "problem" of the cohabiting Hungarian nationality is without substance.... "The irredentist propaganda carried out abroad cannot be counteracted nor even stalled by means of bilateral agreements, and as a result must be ignored," the political leaders maintained at that time. And so they did, committing another serious and irreparable mistake. The unaccountably naive belief that the postwar territorial realities were unassailable, although it was known that the revisionist opponents were betting on a conflict situation determined by an imminent political crisis in international political relations, was fatal for Romania.

Taking advantage of an ignorance arising from a lack of awareness of the truth, the Horthy revisionists then succeeded in injecting public opinion with curious, false, and far-fetched theories, using any means or procedures that might procure them the least advantage. Then as now, demonstrating exceptional tenacity, the school of Horthyist irredentism of the years between the two world wars, attempted to accredit the idea that Romanians, Czechs, Croatians, Slovaks, and so on, who had freely chosen the countries of their conationals at the end of the war, were inferior people, incapable of self-organizing their own socioeconomic and political life, but who allowed themselves to attack the integrity of the Sfintul Stefan kingdom. Inasmuch as the Horthyist revisionist

propaganda failed to marshal scientific arguments in support of its theories, it resorted to untruths and hidden stratagems, deliberately distorting the facts. Using the most varied means, without overlooking even the most insignificant opportunities to capture the goodwill of governments, of statesmen, or of the editors of some large dailies, the Hungarian nationalists preached everywhere that the political status quo in the Carpathian-Danube basin was "unjust," and that consequently it must be subject to revision. In this respect, everything that seemed to be useful to the revisionist idea was unscrupulously exploited. They relied on the fact that America and even Europe did not know a great deal about Romania, and therefore presented the situation as they felt would be to their advantage. They had no qualms about any untruth, no matter how exaggerated; they knew that the Romanian officials did not devote sufficient attention to counterpropaganda. The doctrinaires of the Horthyist irredentism were well acquainted with the rules of the game: "Daily persistence on claims and statements through press conferences, film, music, artistic events, popular celebrations, and so on, will ultimately penetrate even into the most well-balanced minds. Even if it does not convince the person to whom it is addressed, doubt will nevertheless creep into his consciousness and he will finally ask whether an idea which is receiving such intense propaganda can possibly be false."

At the domestic level, matters were simpler. The minority problem constantly offered fresh material, because its real or imagined discontent always existed. Against this background, they embroidered a veritable fabricated literature about the so-called material and spiritual aggression to which the cohabiting nationalities, and the Hungarian one in particular, were supposedly subjected in Romania. Moreover, they pretended that an atmosphere of tension was being maintained exclusively and even with premeditation by Romania.

In another respect, the Hungarian nationalists knew at the time, and apparently have not yet forgotten, that their aspirations cannot hope to succeed except under exceptional international circumstances. That is precisely why they directed their domestic and foreign efforts in the expectation of such a moment, when under one form or another they hoped to gain the goodwill of the great powers in order to achieve their goals.

Does Hungary consider that the present international circumstances are truly favorable? Without making false assumptions, and taking into consideration the facts that will be presented below, I tend to say that it is tempted to believe this to be true.

I note in this respect a greater insistence and generalization of the initiatives that follow the growth of Hungary and the Hungarian national element compared to the other European states and nations, and primarily to Romania. These concerns unquestionably intrude in sociopolitical, cultural-economic, religious, military, and other domains, as well as in bilateral relations of any

nature with the Romanian state, aiming on one hand to undermine our foreign prestige and credibility, and the formation and development of pro-Hungarian—and at the same time anti-Romanian—attitudes, and on the other hand to gather the largest consistent "capital" needed to promote Hungary's interests, by disputing historical truth, obstructing through any means the efforts to stabilize and normalize the domestic and foreign situation, and so on. In support of the above, I will present only a few items randomly culled from various mass media.

[14 Apr p 4]

[Text] To begin with, I will exclude the activities of the UDMR (Democratic Union of Hungarians in Romania) [in Hungarian—RMDSz] activities, known to all as the major instrument of Hungarian revisionism toward Romania, whose openly anti-Romanian actions require no comment. Similarly, I will say nothing about the reformed bishop Laszlo Tokes, who on countless occasions has proven to be a faithful soldier of Hungarian revisionist nationalism.

At the Congress of the Hungarian World Union, held in December 1991 in Budapest, which was attended by more than 350 delegates from Hungary, the Carpathian Basin, and the West, and in which Hungary's Secretary of State for Problems of Hungarians Abroad also participated, ideas were presented for financing and for placing under the control of the Hungarian Government all the leaders of Hungarian foundations and cultural associations in Romania, Czechoslovakia, Yugoslavia, and the Ukraine. The majority of the speakers stressed exclusively the problems concerning the "tragic" situation of conationals in Romania, and supported proposals to concretely involve the Budapest government—through an "intelligent" diplomatic policy—in the action of reuniting Transylvania to Hungary. This initiative is based on arguments that at a time when the Soviet Union and Yugoslavia are breaking apart, no one would pay heed to old peace treaties, a situation that favors possibilities for implementing irredentist designs.

At the same time, the Hungarian authorities are also coordinating other actions intended to heighten the efficiency of the anti-Romanian campaign abroad. Budapest government and Hungarian foreign service figures have combined their efforts to "oversee that the rights of Hungarians in Romania, Czechoslovakia, and Yugoslavia are being respected," acting primarily to "unmask" Romanian policy in minority matters.

For instance, the leaders of the Hungarians' association in Romania have recently drafted a resolution that was sent to Canada's prime minister and to some of the mass media, which condemns pretended anti-Hungarian actions of Romanian officials, while the Koresi Csoma Sandor association of Toronto militates for a return to the boundaries of Greater Hungary. The Rakoczi Foundation and the Hungarian department at the University of Toronto have succeeded in engaging specialists at the

Hungarian Economic Institute in Canada to translate *History of Transylvania* into English by the end of 1993. Concurrently, the idea that Transylvania belongs to Hungary is being disseminated through various channels among (and not only to) foreign diplomats accredited in Bucharest, and attempts are made to discredit the historical truth regarding the establishment and continuity of the Romanian people in the Carpathian-Danube-Pontic area. In this respect, Hungarian historians are improvising evidence and theories to demonstrate that scientific arguments about the Dacian-Roman origin of the Romanian people are simply fiction, maintaining that according to their opinion, the ethnogenesis of the Romanians should be placed in the southwestern area of the Balkan Peninsula, from where they would have migrated in an "eternal drift" toward and over the Carpathian Mountains. In order to lend credibility to such theories, the Hungarian irredentists resort to the most ingenious and at the same time, dangerous, methods. For instance, *Encyclopedia Britannica*, considered by experts as one of the most complex works in the field of historiography, was published by the University of Chicago in 1991. Its authors, most of them "specialists" of Hungarian nationality, deliberately used incorrect dates made available to them by, among others, some exiled "Romanians," to demonstrate that Hungarian, German, and Csango ethnicities would have been predominant in Transylvania, and that the Romanian people did not appear until the 15th century. In view of this it is clear that they were trying to implant the idea that Transylvania never was Romanian, and that consequently, Romania should relinquish it to Hungary, or alternately agree to its autonomy in the first place.

On the other hand, there are clear indications that Budapest is interested in implementing veritable economic invasion plans for Banat and Transylvania, through which they intend to establish joint companies and to support Hungarian ethnics, so that the latter would control the economic sector as the main factor in facilitating the achievement of autonomy in the respective areas.

Also notable is the interest of our neighbor to the west in military affairs, no matter how they might attempt to conceal their true objectives. Together with all the public we have seen Hungary's involvement in the armed conflict in Yugoslavia and the support it has given to the Slovene and Croat separatists. Reports about the training of Croatian fighters on Hungarian territory, the encouragement of weapons traffic and delivery of military equipment, and the logistic help given to the secessionist fighters, show the extent to which Budapest is interested in maintaining peace and stability in Europe. The fact that several military instruction camps which train specially selected young men for commando and diversive missions, currently operate in Hungary, both near the borders of neighboring countries (at Mako, Bekecsaba, Szeged, and so on) and in Budapest, is not liable to illustrate aspirations for conciliation and good understanding. Added to these are the programs to establish or relocate certain military units at our country's border (at Debreczen and Pecs); Hungary's feverish

concern to sign bilateral military agreements, including part of the "Trilateral" (following the unsuccessful attempt of joining NATO); as well as the circulation of suggestions according to which Romania might represent a danger to Europe's peace and security. All of these, using the specifics of psychologic diversion, are intended to maintain and develop the syndrome of Hungarian revisionism and to attempt to undermine the institutions of the Romanian state. I am referring to publications (and even leaflets) in which Romania's map appears without Transylvania, the mass media description of the Romanian Army staff as a "bastion of communism" that should be removed for the "good of society," the fostering of attitudes that encourage challenges to the order of justice, to the law, to public authorities, and so on.

Of course, neither is the Hungarian revisionism inactive in the religious domain. Noteworthy I believe, are the steps being taken to remove the Alba Iulia Episcopality from the authority of the Bucharest Roman Catholic archbishop, as a first phase toward achieving an autonomous archbishopric of Hungarians in Transylvania, whose jurisdiction will also be extended to the bishops in Satu Mare, Oradea, and Timisoara. Should this transfer not be achieved in practice, the alternative held in reserve is to subordinate these Roman Catholic bishoprics directly to the pope in Rome.

With these in mind, I do not think I am wrong in saying that an increasingly clear outline is taking shape for reviving in our times the old stratagem of Hungarian revisionism toward Romania, as follows: Officially, the Hungarian authorities make no propaganda for reconfiguring the Sfintul Stefan kingdom, but on the contrary, maintain at every opportunity that they would favor the maintenance of the present borders. In reality, however, through devious channels, they initiate and encourage irredentist actions or the autonomy of Transylvania; Budapest makes no financial or material economies in this pursuit, but rather attempts to consolidate its foreign moral or logistic support independently of its source. When it considers that the opportune moment has arrived, it will trigger a true "mass incident" through which it will ask for Transylvania's autonomy and reaffiliation to Hungary, an event for which it will seek foreign intervention to resolve the situation. During all this time, it will maintain a true campaign to arouse and sensitize public opinion in Hungary, particularly among the young, so that "when needed" they can perform their "duty" for their country; but as has been stated, this would be only one of the alternatives available to Budapest. Others, equally hostile are conceivable, such as speculations on reuniting Moldova to Romania. It is thus surmised that it will militate efficiently and "disinterestedly" to achieve a Greater Romania through the UDMR and other "well-meaning" organizations or persons. (This maneuver can be justified by UDMR simply by belonging to the Democratic Convention.) It is expected that if this Romanian wish is realized, the



Russians, Nistru inhabitants, and Gagauzi will protest their unhappiness, which with proper "orientation" will lead to violent actions. The simultaneous initiation of violent interethnic conflicts in Transylvania as well, would give Hungary the possibility to ask for intervention from international organizations in order to "peacefully avoid conflicts" and to federalize Romania.

I am convinced that neither the imagination nor the practical interests of the Hungarian nationalists stop here. I am aware that the information I presented (which in fact is known to the public) represents only a portion of the surface of the irredentist iceberg that is coming more and more threateningly close to Romania. Elementary logic forces me to admit that the few examples included in this article are not the most significant in this respect. Despite this, I have not yet seen a reaction worthy of notice from Romania. It is true that at first sight it appears unrealistic to redemonstrate a truth which everyone pretends to know and respect. Nevertheless, history has painfully shown us that such negligence is sometimes costly.

I have presented the above with the strange feeling derived from the wish that the imminent reality of a disaster may ultimately not be true. I hope from the bottom of my heart that what appears to be headed toward the inevitable will not become concrete, and that I will have reason to see that I have been wrong in this respect.

#### Vrancea PNTCD Chief Says PNL 'Brash'

92BA0855A Bucharest DREPTATEA in Romanian  
24 Apr 92 p 2

[Interview with Nicu Manaila, president of the National Christian Democratic Party in Vrancea County, by A.D.; place and date not given: "The National Christian Democratic Party in Vrancea County"]

[Text] Mr. Nicu Manaila is president of the PNTCD [National Christian Democratic Party] organization in Vrancea County, and vice president Gheorghe Catuneahu (aged 56), president of the AFDPR [expansion not given] in Vrancea County, and Vice President Romeo Constantinescu (aged 51) are his collaborators. The organization is headquartered in Focsani city, 8 Republica Street, telephone number 939-21651. Mr. Manaila, who is 65 years of age and a jurist by profession, told me that "My whole life is linked with the Peasant Party. I was a law student and I tried to learn the true history of our people. I knew that that party fights for the unity of the Romanians and the reunification of the fatherland. Those were not empty words. I believed in that as a youth. And then I had many Transylvanian friends. The National Romanian Party in Transylvania was sacred to us."

[A.D.] Mr. Manaila, how many branches does the PNTCD have in your county?

[Manaila] It has 59 organizations. The strongest ones are in the localities of Odobesti, Marasesti, Panciu, Vidra, Gura Galitiei, Zaristea, Milcov, Valea Tarii, Tulnici, Vulturul, Tataranu and Marasti. Those localities have resounding names, where history was made. Think of Milcov, Valea Tarii, and Vulturul.... I do not know why, but it is in these localities that the electorate are staunch supporters of the PNTCD, especially after they were convinced that the government is lying.

[A.D.] How were the local elections of 9 February conducted?

[Manaila] There were no serious incidents. Those elections were more correct from our point of view, and no essential frauds were to be seen. Even the factory workers, who had opposed us on 20 May on the ground that we were selling their country, voted for us. Nevertheless the campaign was a very impoverished one for us from the material standpoint. We barely got by with donations from our candidates, and we used our own transportation means.

[A.D.] What were the final results?

[Manaila] The PNTCD is represented by 64 of the 211 councilors won by the Democratic Convention, which also won three mayors (PNL [National Liberal Party]) while the PNTCD won three deputy mayors.

[A.D.] How did you collaborate with the other parties in the Convention?

[Manaila] Collaboration with the PNL-PAC [Civic Alliance Party]-AFDPR went well in Vrancea. To be sure the PNL members were brash as they are everywhere and always wanted to occupy positions [locuri]. But in the main we cooperated. We kept to ourselves [Am lasat si de la noi] and I think things went well. But the demonstration was held, back on 9 February, where the PNL marched separately (with the electoral symbol of the Arrow) and did not win.

[A.D.] How was the Land Reserve Law applied in your county?

[Manaila] It has not been applied. Agriculture is the main problem. Our county is characteristically unfortunate. The PDAR [Democratic Agrarian Party of Romania] appeared there and won 159 councilors. They are all agricultural officials from former IAS's and CAP's [State Agricultural Enterprises and Agricultural Production Cooperatives]. Rastoaca Commune is an instance of it in our county. Before the revolution the IAS arbitrarily acquired the peasants' land. According to the Land Reserve Law shares must be given for the lands that belonged to the IAS's, but the peasant does not want shares. He wants his land. What is in hand is no lie. A petition with 450 signatures was submitted to change the Land Reserve Law. In 1991 over 1,000 peasants from the mountain zone of the county even went to Parliament. There was not even an answer. Now it is said that they



would give them land but in another area. Rastoaca had the most convicts under the forced collectivization.

[A.D.] I know that unsuccessful revolt of the peasants in Rastoaca had repercussions.

[Manaila] Yes, the peasants in the mountains started one too, about 10,000 people in all the villages, in Tulnici, Birsesti, Mereju, and Naruja. They protested too and sent petitions to Parliament to restore the lands that had been granted to their parents after World War I. They were always cheated, being given 100 or 200 or 300 meters. Nothing was resolved.

[A.D.] What are the PNTCD's chances in the general elections?

[Manaila] I think they depend entirely upon maintaining the Democratic Convention. Unification alone can lead to elimination of the present government and real installation of democracy in Romania. The electorate is attracted to the opposition because the present government has completely disillusioned them. There are also a great many who are indifferent. May God help us!

#### Isarescu on Exchange Rates, Inflation, Exports

92BA0850A Bucharest *TINERETUL LIBER*  
in Romanian 22 Apr 92 pp 1, 3

[Interview with Mugur Isarescu, governor of the central bank, by Liana Simion; place and date not given: "I Am an Expert at Controlling the Rate of Exchange"]

[Text] [Simion] Mr. Governor, last year you said, "Without adequate foreign financing we are on the verge of an economic catastrophe." Is the estimate still valid?

[Isarescu] The Romanian economy is better adjusted and less dependent on foreign financing, but on the whole the statement is valid. In 1991 the trade deficit was down from 1990, and in the same year (1991) we managed to pay our debts out of the clearing balances to a great extent, so that dependence on foreign financing is still declining. If we obtained foreign credits this year we would have to reduce our imports by about \$1-1.2 million, which would mean, I believe, a reduction of about 20 percent in capacity (and production), with economic and social effects that would be hard to bear.

[Simion] You declared a very intensive war on inflation as a priority for 1992. What are you actually counting on?

[Isarescu] The first factor that bears us out is our emergence from the ambivalent state characteristic of the period of corrective inflation that follows liberalized prices. When prices are liberalized, on the one hand they go up for that very reason and we have an inflation, a necessary and inevitable corrective inflation on the basis of which massive corrections of imbalances are made. But on the other hand we would like those price rises to be lower. I think Romania's corrective inflation was over in March 1992, both actually and formally. It had

already gone on too long. If that period lasts too long the corrective inflation gets bound up with the fundamental one and the situation becomes very dangerous. The other countries did not liberalize their prices in as many stages. There were three of them in Romania, in November 1990 and in April and November 1991, amounting to about 16 months. The reasons are well known, namely fear of a social upheaval and the fact that Romanian society was already traumatized and would not have withstood the far too great shocks. Therefore, we can oppose price increases with all forces from the very start of the corrective inflation. What instruments shall we use? Naturally we prefer the instruments of a cash economy [economie de plata] to administrative ones. The economy can no longer be managed with measures of control and instruments characteristic of the old mechanism. The chief instrument with which we will try to control inflation will be really favorable interest (above the inflation rate).

[Simion] Will there be no partially subsidized sectors? I am referring to agriculture, which depends heavily upon credits....

[Isarescu] Correct. You are right. We have accepted the fact that almost everything in agriculture from sowing to harvesting has been done on credit. Until the private sector in agriculture is formed, the workers will have practically nothing and must be aided. Nevertheless, agriculture is a strategic field and one for national security, and it feeds the population. Therefore, agricultural operations will be financed this spring (at least) at a heavily subsidized rate of 15 percent interest. If the anti-inflation program succeeds, the interest rates should be somewhere around 30 percent in fall and 20-25 percent in December. Then even such an acute problem would no longer be subsidized.

[Simion] What can you tell me about the export enterprises with long production cycles? They should be encouraged in order to restore exports....

[Isarescu] As you have seen, the Eximbank has been founded. There are allocations in the budget to cover the difference in interest for exporters. In general we want to encourage all exporters (through relatively reduced credits or refunds of interest). That would be our intention. But let us see how extensive the phenomenon is.

[Simion] Please consider the production-exports-imports-rate of exchange-prices-inflation relationship. How do you intend to harmonize the factors?

[Isarescu] Exports are the vital point in that whole relationship. I should have said production, because through inertia there still is production in Romania which is without payment for sales or which is inefficient because of the inherited interdependences in the national economy. Why did I mention exports?

[Simion] Why?

[Isarescu] Only efficient production can increase exports. When I say exports, I am saying production, on three conditions, namely that it be competitive (so that it can be exported), that it be efficient (because otherwise it cannot be supported), and that it have payment for sales. If exports are reinvigorated by encouraging the exporters, especially through accounts in foreign exchange, the deficit in the balance of trade between exports and imports will be decreased and therefore the pressure on the rate of exchange will be less and the problem of financing that deficit will no longer be so acute (In Romania the deficit tends to exceed what we can provide for by foreign financing), and in turn we can also provide for imports, which will help to increase production, and a favorable good circle is created (So far there have been only vicious circles), which will stabilize the rate of exchange and reduce the pressure on prices. In its turn the correlation between prices and the rate of exchange can take the form of a vicious circle of self-aggravation: The rate of exchange leads to higher prices and as they increase further they depreciate the rate of exchange. It is also possible to enter upon a good circle: A relative stabilizing of the rate of exchange will also moderate the price rises, that is those aspects will be favorably affected. Miracles can also happen, and we must find at least one point of support. At least one sector should go well.

[Simion] Which of them are you counting on?

[Isarescu] I would count on exports and on encouraging the exporters.

[Simion] How do you intend to make foreign exchange accessible to the economic agents?

[Isarescu] The announcement will be made in Parliament on Thursday. We think that in the first place those who generate foreign exchange, the exporters, should have priority access to foreign exchange—to part of it.

[Simion] You cannot say how much?

[Isarescu] We could leave them all of it! Problems of the mechanisms enter into it. It is a matter of some correlations that must be made among several economic-financial indicators.

[Simion] In order to stop the rumors: How will the rate of exchange be liberalized, totally, or in stages?

[Isarescu] I am an expert at control of the rate of exchange. It must be controlled for several important reasons. In the first place, the Romanian economy is not a flexible one. It is rigid. It is not important to the ordinary man what the rate of exchange will be, while those who have foreign exchange plead for its depreciation. The rate of exchange can be a devastating bludgeon to a rigid economy based to a great extent on imports. No one has an interest in our injuring the Romanian economy indiscriminately because it ultimately supports the rate of exchange. I think the economy will be

restructured rather slowly. The process must be stimulated and, to the same extent, we must also let the rate of exchange depreciate (so that it will also hit those who are "asleep"), but not in a devastating way. Just as the restructuring process must be kept under control, an action that requires a proprietor, who is after all the state or the government, so does the rate of exchange also have to be kept under control. The problem is that we should not be the instruments.

### Communications Network Modernization Discussed

92WT0154Z Bucharest TRIBUNA ECONOMICA  
in Romanian 3 Apr 92 p 4

[Interview with Minister of Communications Andrei Chirica by Mircea Serb; place and date not given: "Communications—An Area Undergoing Consolidation"]

[Text] [Serb] Mr. Minister, please tell us about the present state of telecommunications in Romania.

[Chirica] Actually, the state of telecommunications in Romania is inadequate for the end of the 20th century. It is characterized by a limited number of subscribers, namely 2.4 million, which has increased by only about 200,000, or a gain of 4 percent per year under circumstances in which we should normally show an increase of 15-20 percent every year. There are about 1 million unfilled orders, while it is estimated that the potential demand is for 7-8 million new telephone sets.

In order to strengthen this essential component of the communications infrastructure, an outline program for development has been drafted with major foreign (French) technical aid. After a year of local studies with modern data processing, we have succeeded in devising a coherent program for development up to 2005, which program provides for installation of 8 million new telephones, new services for important subscribers, and complete modernization, as regards generating, of the exchanges and the cable network.

But all this requires major financing with billions of dollars. To be sure there is some foreign financing under way, initiated by the European Bank [EBRD], and more planned for the future.

There is also domestic financing which, through the rates charged, permits some participation in the developmental programs. All these ideas are included in the program the government approved in August 1991, which includes approval of the policies for developing the ideas for financing, both for telecommunications and for radio, TV and the postal service.

[Serb] What is the state of foreign investments?

[Chirica] Everyone acknowledges the necessity of foreign investments. Retooling and modernizing are absolutely necessary. Important steps have been taken: Two mixed

manufacturing companies have been formed in Romania for public telephone exchanges with two of the most important European manufacturing companies, Siemens and Alcatel. Both of them have formed companies with equal production capacities, one in Bucharest and one in Timisoara.

Outfitting has begun in both the factories, and this fall we will have the first public exchanges constructed and installed in the network. A mixed company has also been formed with the Korean Goldstar firm for enterprise (private) exchanges and for rural areas. Contacts have been made, and are almost in the final stage, for production of telephone cables. This activity is continuing.

[Serb] But telephone sets are being imported.

[Chirica] No domestic producer has been found yet who will compete. Therefore there is an imported component and there is also a domestic industrial component that is already involved in mixed companies. There are also some foreign operators who are to perform a number of services jointly with Romanian operators. Cellular radiotelephone transmission is an important field, wherein a partnership contract was recently concluded with Telefonica International-Spania in order to found Telefonica-Romania, a mixed company that will provide the new service of portable radiotelephone transmission. Moreover the audiovisual law will permit the existence of radio and TV sets and transmitters independent of those of the autonomous administrations. There are already some that are transmitting in Bucharest and in other cities.

[Serb] What can you tell us about the privatizing effort in the field of communications?

[Chirica] The first steps have been taken in that direction. For example, a great many private firms for maintenance of telephone terminal equipment, equipment in enterprises, etc. have sprung up, so that the autonomous administration is no longer the sole supplier of equipment or services. The same is true of designing in the communications field. Of course the infrastructure, the basic network, is still a state monopoly, protecting both the social component and the uniqueness of the network, as it also is in France, Germany, and the European countries in general.

Accordingly in Romania too the Romtelecom administration and the Radiocom administration as well as the Romanian Postal Service have some special rights reserved for them, but only over the basic service (traditional telephone service, telegraph service, postal correspondence, money orders). The new services are already open to competition, while protecting the operators who perform telecommunications services. Moreover the problem of completely liberalizing the terminals, that is the equipment with the customers, arose back in the spring of 1991 (and it was accomplished in autumn). Accordingly everyone can buy a telephone in a city and the administration is required to connect it. But there is one condition: The producer firm must be technically

certain that the respective type of equipment is compatible with the national network. Consequently both faxes and telephones or exchanges of enterprises exist and are marketed on the free market.

[Serb] Mr. Minister, please tell us about the raise in fees as of 15 March 1992.

[Chirica] That raise is determined by the convertibility of the money supply [masa monetara]. The delivery prices that affected the telecommunications fees, which were calculated and then negotiated back in February, were set on the basis of the inputs (energy, raw materials and spare parts). Some fees, few in number, are affected. The main things are the increase in the fee from 100 to 130 lei and in that for the impulses per conversation from 1 to 3 lei. The international fees are up 25-28 percent, without reaching the values of the fees charged by the corresponding administration for the same connection (for example, a Paris to Bucharest conversation costs much more than one from Bucharest to Paris) at the official rate of exchange. This raise in the fees includes a very small part of the domestic financing of the program to develop telecommunications. For example, the fees for the economic agents are differentiated, while a separate fee is no longer charged for fax machines.

[Serb] Now the problem is arising of a massive but very brief transfer of information, something that can be done only with modern telecommunications networks. What efforts are being made in this direction?

[Chirica] We can assert that no component of life is conceivable without communications. This transfer of information avoids travel by a large number of persons and is therefore economical and rapid, to say nothing of the role of telecommunications in the connections that are established with banks and firms both in Romania and abroad. While on the national level we can mention some kind of uniform telephone network constructed in the last 20-30 years, not much has been done in the international field. Some progress was made in that field last year. For instance, we managed to place three exchanges in operation (two in Bucharest and one in Brasov) giving the subscribers access to the international network from the start, that is they can make automated calls. This has also partly relieved the congestion in traffic among those who speak via command 071 (international traffic has increased by six times in one year, and conversations have increased by minutes) with more modest facilities.

A station for European connections via satellites has been inaugurated, and the older satellite stations have been enlarged. All these efforts being made in the telecommunications field will also develop cooperation and collaboration with foreign firms that want to operate in Romania. Without a modern telecommunications network a foreign firm cannot conduct its activity in Romania. That network must be developed not only in Bucharest but throughout the country, in all cities and even in the rural areas, where agriculture is in great need of communications.



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